2016 ANNUAL REPORT

cdbbank

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CONTENTS

Legal Advisers
CHRYSSAFINIS & POLYVIOU

Independent Auditors
KPMG Limited
14 Esperidon Street
1087 Nicosia

Registered Office
50, Makarios III Avenue
Alfa House
1065 Nicosia

Management Body

Kyriacos Christofi, Chairman, Non-Executive
Neoclis Nicolaou, Vice Chairman, Non-Executive
Andreas Loizou, Senior Independent, Non-Executive
Andri Georghiou, Executive
George Loizou, Non-Executive
Sergey Novikov, Non-Executive
George Pavlides, Non-Executive
Menelaos Shiacolas, Non-Executive
Oleg Belousov, Non-Executive (resigned 15.3.2016)
Thomas Christodoulou, Non-Executive (resigned 24.5.2016)
Aleksey Kulikov, Non-Executive (resigned 15.3.2016)
Alexandra P. von Sauber, Non-Executive (resigned 30.7.2016)
Kyriacos Papadopoulos, Executive (resigned 11.6.2016)

Chief Executive Officer

Kyriacos Papadopoulos (until 11.6.2016)

Acting Chief Executive Officer

George Spyrides (appointed 31.5.2016)

Secretary

Evi Protopapa

Management Report

The Management Body of the Cyprus Development Bank Public Company Limited (the "Company") presents to the members its annual report together with the audited financial statements of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The principal activities of the Company, which remained the same as in the previous year, are commercial banking operations.

The principal activities of the subsidiary company, which remained the same as in the previous year, Joint Stock Company cdbbank and whose commercial name is cdbbank Russia (or "cdbrussia"), are commercial banking operations.

The principal activities of the subsidiary company, Global Capital Limited, which remained the same as in the previous year, are portfolio management as well as the provision of financial advisory, investment banking and brokerage services.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 9.

The profit from continuing operations of the Group before provisions amounted to €3.4m as compared to a profit of €5.5m in 2015. The decrease in profit before provisions is mainly attributable to lower interest income, as a result of lower loan yields and the contraction of the bank's loan portfolio as well as to its substantial investment in enhancing its operational capability for increasing fee generating business. In a difficult banking environment, provisions for impairment of loans and advances during 2016 amounted to €4.3m, 13% above the provision charge of €3.8m reported in 2015. The Group, after provisions for impairment of loans and advances and permanent diminution in the value of investments, has reported a pre-tax loss from continuing operations of €891 thousand, as compared to a profit of €1.447 thousand in 2015. After losses of €496 thousand from discontinued operations, relating to the Russian subsidiary JSC cdbbank reclassified as held for sale and the disposal of PCM Advisers Ltd, the Group reported after tax losses of €2.039 thousand for 2016.

The Group continued its intense efforts for the improvement of the quality of its loans and advances portfolio through restructurings and collections, monitoring closely non-performing exposures ratio, while maintaining a conservative provisioning policy and a satisfactory provision coverage ratio.

DIVIDENDS

The Management Body does not recommend the payment of dividend.

RISK MANAGEMENT

As a financial organisation the Group is exposed to risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. The Group monitors and manages these risks through the Risk Management unit, the Company's ALCO committee, the Management Body's Risk Management Committee and the Management Body. Description of Group's risk management framework is set out in note 32 to the financial statements.

SHARE CAPITAL

There were no changes in the share capital of the Company during the year.

CAPITAL MANAGEMENT

The Common Equity Tier I Ratio of the Group and of the Company as at 31 December 2016 was 11,5%. The Management Body and Management are taking measures to increase the capital adequacy ratio to 14,45% as per the current requirements of the Central Bank of Cyprus, following its Supervisory Review Evaluation Process for 2016. Details on capital management are shown in note 32(e) to the consolidated and separate financial statements.

Management Report (continued)

STRATEGY AND PRIORITIES

The Group has set its strategic priorities for 2017 which mainly aim at increasing its operating profitability through the increase in its credit portfolio and its fee-generating activities. At the same time with the effective management of non-performing exposures through the implementation of sustainable restructuring solutions it aims to further improve its asset quality and maintain its capital adequacy at high levels.

The Group places continued emphasis on an effective risk management framework through prudent risk policies and measures, focusing on the growth of a healthy loans and advances portfolio and expanding its good client base.

The Group will continue its efforts to attract deposits in order to strengthen its liquidity and maintain adequate liquidity ratios. The Group will also focus on the provision of quality asset management and investment and advisory services, through its subsidiary company Global Capital Limited.

On 22 March 2017, the Group signed an agreement with a prospective buyer for the sale of its Russian subsidiary JSC cdbbank in Krasnodar which will become effective once the Central Bank of Russia approves the transfer of the shares to the new shareholders.

BRANCHES

The Company carries out its activities through its head office and two business centers, one in Nicosia and one in Limassol, Cyprus.

MANAGEMENT BODY

The names of the members of the Management Body ten days before the date of this report are set out on page 3.

The Chairman and Directors Andreas Loizou, George Loizou, Neoclis Nicolaou, Sergey Novikov, George Pavlides, Menelaos Shiacolas and Andri Georghiou served on the Management Body throughout the year 2016.

Messrs Oleg Belousov and Aleksey Kulikov resigned from the Management Body on 15 March 2016, Mr Thomas Christodoulou resigned from the Management Body on 24 May 2016, Mr Kyriakos Papadopoulos resigned from the Management Body on 11 June 2016 and Mrs Alexandra P. von Sauber resigned from the Management Body on 30 July 2016. The members of the Management Body express their thanks to Messrs Oleg Belousov, Aleksey Kulikov, Thomas Christodoulou, Kyriakos Papadopoulos and Alexandra P. von Sauber for their valuable contribution.

In accordance with the Company's Articles of Association, at the Company's Annual General Meeting for 2016, one third of the directors serving (those with longest service since their last appointment) will be due for retirement and being eligible, will offer themselves for re-election.

RELATED PARTY TRANSACTIONS

Disclosed in note 35 of the financial statements.

EVENTS AFTER THE REPORTING PERIOD

Disclosed in note 37 of the financial statements.

INDEPENDENT AUDITORS

The independent auditors, Messrs KPMG Limited, have informed the Company of their willingness to continue in office and a resolution giving authority to the Management Body to fix their remuneration will be submitted to the Annual General Meeting.

By the order of the Management Body
Kyriacos Christofi
Chairman

Nicosia, 23 May 2017

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF
THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED

Report on the audit of the consolidated financial statements and the separate financial statements of The Cyprus Development Bank Public Company Limited

Opinion

We have audited the accompanying consolidated financial statements of The Cyprus Development Bank Public Company Limited (the "Company"), and its subsidiaries (the "Group"), and separate financial statements of The Cyprus Development Bank Public Company Limited which are presented on pages 9 to 78 and comprise the consolidated statement of financial position and the statement of financial position of the Company as at 31 December 2016, and the consolidated income statement, consolidated statement of other comprehensive income, changes in equity and cash flows, and the income statement, statement of other comprehensive income, changes in equity and cash flows of the Company for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements and the separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2016, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "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 "Auditors' responsibilities for the audit of the consolidated financial statements and the separate financial statements" section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated financial statements and the separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to notes 2(a) and 32(e) to the consolidated and separate financial statements which discuss the assessment by the Management that the Group and the Company will continue as a going concern. The fact that the Company is currently required to comply with additional capital requirement with respect to the total SREP Capital Requirement ("TSCR") ratio may indicate the existence of a material uncertainty of the Group's and Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap.113.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate 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. Our report in this regard is presented in the "Report on other legal requirements" section.

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF
THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED

Responsibilities of the Board of Directors for the consolidated financial statements and the separate financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements and separate financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the separate financial statements, the Board of Directors is responsible for assessing the Group's and the Company'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 there is an intention to either liquidate the Company or to cease operations, or there is no realistic alternative but to do so.

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

Auditors' Responsibilities for the audit of the consolidated financial statements and the separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the separate 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 Company's and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements and the separate 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 auditors' report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the separate 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF
THE CYPRUS DEVELOPMENT BANK PUBLIC COMPANY LIMITED

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts of Law 2009, L.42(I)/2009, as amended from time to time ("Law 42(I)/2009"), we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company, so far as it appears from our examination of these books.
- The Company's consolidated financial statements and separate financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the consolidated financial statements and separate financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the Management Report on pages 4 to 5, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In the light of the knowledge and understanding of the business and the Company's environment obtained in the course of our audit, we have not identified material misstatements in the management report.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of Law 42(I)/2009 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.

Maria A. Papacosta FCCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

23 May 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 €' 000	2015 €' 000
Continuing operations			
Turnover		19.522	20.570
Interest income	4	15.388	18.130
Interest expense	5	(5.802)	(7.583)
Net interest income		9.586	10.547
Other income	6	3.092	2.414
Total income		12.678	12.961
Net foreign exchange gains	7	1.042	26
Staff costs	8	(6.502)	(4.587)
Other operating expenses	9	(3.166)	(2.261)
Depreciation	10	(634)	(683)
Profit before provisions for impairment		3.418	5.456
Provisions for impairment	10	(4.309)	(3.816)
(Loss)/profit before permanent diminution in value of investments available for sale		(891)	1.640
Permanent diminution in value of investments available for sale - Transfer from revaluation reserve		-	(193)
(Loss)/profit before tax from continuing operations		**(891)**	**1.447**
Tax	11	(652)	(567)
(Loss)/profit after tax from continuing operations		**(1.543)**	**880**
Discontinued operations			
Loss after tax from discontinued operations	12	(496)	(1.170)
Loss for the year		**(2.039)**	**(290)**
Loss for the year attributable to:			
Owners of the Company – continuing operations		(1.539)	877
Owners of the Company – discontinued operations		(496)	(1.170)
		(2.035)	(293)
Non-controlling interests		(4)	3
		(2.039)	(290)
Basic and fully diluted loss per share (cent)	13	(7,84)	(1,13)
Basic and fully diluted (loss)/earnings per share (cent) from continuing operations	13	(5,93)	3,38

The notes on pages 20 to 78 are an integral part of these financial statements.

INCOME STATEMENT

For the year ended 31 December 2016

	Notes	2016 €' 000	2015 €' 000
Turnover		19.162	19.940
Interest income	4	15.385	18.116
Interest expense	5	(5.798)	(7.578)
Net interest income		9.587	10.538
Other income	6	2.735	1.748
Total income		12.322	12.286
Net foreign exchange gains	7	1.042	76
Staff costs	8	(6.217)	(4.254)
Other operating expenses	9	(3.015)	(2.108)
Depreciation	10	(620)	(668)
Profit before provisions for impairment		3.512	5.332
Provisions for impairment	10	(4.273)	(3.670)
(Loss)/profit before permanent diminution in value of investments available for sale		(761)	1.662
Permanent diminution in value of investments available for sale - Transfer from revaluation reserve		-	(193)
(Loss)/profit before tax		(761)	1.469
Tax	11	(652)	(560)
(Loss)/profit for the year		(1.413)	909
Basic and fully diluted (loss)/profit per share (cent)	13	(5,44)	3,50

The notes on pages 20 to 78 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 €' 000	2015 €' 000
Loss for the year after tax		(2.039)	(290)
Other comprehensive income			
Items that are or may be reclassified to profit or loss			
Exchange gains/(losses) arising on the translation and consolidation of foreign subsidiary's financial statements		820	(297)
Gains/(losses) from revaluation of investments available for sale	16	4	(242)
Transfer to the income statement - Disposal of investments available for sale	16	(3)	-
Transfer to the income statement - Permanent diminution in the value of investments available for sale	16	-	193
Defence tax on deemed dividend distribution		(38)	-
Adjustment to subsidiary's reserves relating to prior years		(47)	-
Deferred tax on revaluation of premises		-	(1)
Other comprehensive income/(loss) for the year		736	(347)
Total comprehensive loss for the year		(1.303)	(637)
Total comprehensive loss attributable to:			
Owners of the Company – continuing operations		(1.609)	830
Owners of the Company – discontinued operations		323	(1.467)
		(1.286)	(637)
Non-controlling interest		(17)	6
Total comprehensive loss for the year		(1.303)	(631)

The notes on pages 20 to 78 are an integral part of these financial statements.

STATEMENT OF OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 €' 000	2015 €' 000
(Loss)/profit for the year after tax		(1.413)	909
<u>Other comprehensive income</u>			
Items that are or may be reclassified to profit or loss			
Gains/(losses) from revaluation of investments available for sale	16	3	(223)
Gains/(losses) from revaluation of investments in subsidiaries		39	(867)
Transfer to the income statement - Disposal of investments available for sale	16	(3)	-
Transfer to the income statement - Permanent diminution in the value of investments available for sale	16	-	193
Deferred tax on revaluation of premises		-	(1)
Other comprehensive income/(expense) for the year		39	(898)
Total comprehensive (expense)/income for the year		(1.374)	11

The notes on pages 20 to 78 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 €' 000	2015 €' 000
ASSETS			
Cash and balances with central banks	14	81.957	90.524
Balances with other banks	14	117.848	44.685
Loans and advances	15	270.413	317.042
Investments in equities	16	637	767
Investments in debt securities	17	44.291	20.898
Assets of subsidiary company held for sale	19	12.798	-
Premises and equipment	20	5.986	5.798
Intangible assets	21	617	637
Receivables and other assets	22	3.649	2.365
Total assets		**538.196**	**482.716**
LIABILITIES			
Client deposits	23	459.381	435.115
Borrowings	24	-	390
Liabilities of subsidiary company held for sale	19	6.622	-
Deferred taxation	26	154	94
Accruals and other liabilities	25	30.312	4.087
Total liabilities		496.469	439.686
EQUITY			
Share capital	27	35.164	35.164
Share premium		11.211	11.211
Reserves		(4.834)	(3.548)
Equity attributable to owners of the parent company		41.541	42.827
Non-controlling interest		186	203
Total equity		41.727	43.030
Total liabilities and equity		**538.196**	**482.716**
Contingent liabilities and commitments	29	63.424	56.725

The financial statements were approved by the Management Body on 23 May 2017.

Kyriacos Christofi	Chairman
Andreas Loizou	Director
George Loizou	Director
George Spyrides	Acting Chief Executive Officer
Stella Avraam	Acting Chief Financial Officer

The notes on pages 20 to 78 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 €' 000	2015 €' 000
ASSETS			
Cash and balances with central banks	14	81.957	89.085
Balances with other banks	14	117.693	40.279
Loans and advances	15	270.413	310.776
Investments in equities	16	351	481
Investments in debt securities	17	44.291	20.898
Subsidiary company held for sale	18	6.176	-
Investments in subsidiary companies	18	812	7.175
Premises and equipment	20	5.949	5.628
Intangible assets	21	617	636
Receivables and other assets	22	3.019	1.448
Total assets		**531.278**	**476.406**
LIABILITIES			
Client deposits	23	459.381	429.268
Borrowings	24	-	390
Deferred taxation	26	154	144
Accruals and other liabilities	25	30.202	3.689
Total liabilities		489.737	433.491
EQUITY			
Share capital	27	35.164	35.164
Share premium		11.211	11.211
Reserves		(4.834)	(3.460)
Total equity		41.541	42.915
Total liabilities and equity		**531.278**	**476.406**
Contingent liabilities and commitments	29	63.424	55.638

The financial statements were approved by the Management Body on 23 May 2017.

Kyriacos Christofi	Chairman
Andreas Loizou	Director
George Loizou	Director
George Spyrides	Acting Chief Executive Officer
Stella Avraam	Acting Chief Financial Officer

The notes on pages 20 to 78 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

2016	Share capital €'000	Share premium €'000	Non-distributable reserve €'000	Revaluation reserve €'000	Exchange difference reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interest €'000	Total Equity €'000
	Attributable to the parent company's owners								
Balance 1 January	35.164	11.211	90	1.099	(3.430)	(1.307)	42.827	203	43.030
Exchange differences	-	-	-	-	820	-	820	-	820
Revaluation of investments available for sale	-	-	-	4	-	-	4	-	4
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	(12)	-	12	-	-	-
Transfer to the income statement – disposal of investments available for sale	-	-	-	(3)	-	-	(3)	-	(3)
Adjustment to subsidiary's reserves relating to prior years	-	-	-	-	-	(40)	(40)	(7)	(47)
Defence Tax on deemed dividend distribution	-	-	-	-	-	(32)	(32)	(6)	(38)
Loss for the year	-	-	-	-	-	(2.035)	(2.035)	(4)	(2.039)
Balance 31 December	35.164	11.211	90	1.088	(2.610)	(3.402)	41.541	186	41.727

Non-distributable reserve

The non-distributable reserve comprises of amounts transferred from revenue reserve by the foreign subsidiary to cover possible future losses in accordance with Russian legislation.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments available for sale and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 20 to 78 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Attributable to the parent company's owners								
2015	Share capital €'000	Share premium €'000	Non-distributable reserve €'000	Revaluation reserve €'000	Exchange difference reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interest €'000	Total Equity €'000
Balance 1 January	35.164	11.211	86	1.163	(3.133)	(1.027)	43.464	203	43.667
Exchange differences	-	-	-	-	(297)	-	(297)	-	(297)
Revaluation of investments available for sale	-	-	-	(239)	-	-	(239)	(3)	(242)
Deferred taxation	-	-	-	(1)	-	-	(1)	-	(1)
Transfer to the income statement – permanent diminution in the value of investments available for sale	-	-	-	193	-	-	193	-	193
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	(17)	-	17	-	-	-
Transfer from revenue reserve to non-distributable reserves	-	-	4	-	-	(4)	-	-	-
Loss for the year	-	-	-	-	-	(293)	(293)	3	(290)
Balance 31 December	35.164	11.211	90	1.099	(3.430)	(1.307)	42.827	203	43.030

The notes on pages 20 to 78 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

2016	Share capital €' 000	Share premium €' 000	Revaluation reserve €' 000	Revenue reserve €' 000	Total €' 000
Balance 1 January	35.164	11.211	(2.516)	(944)	42.915
Deferred taxation	-	-	-	-	-
Revaluation of investments available for sale	-	-	3	-	3
Revaluation of investment in subsidiary companies	-	-	39	-	39
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	(12)	12	-
Transfer to the income statement – disposal of investments available for sale	-	-	(3)	-	(3)
Loss for the year	-	-	-	(1.413)	(1.413)
Balance 31 December	35.164	11.211	(2.489)	(2.345)	41.541

2015	Share capital €' 000	Share premium €' 000	Revaluation reserve €' 000	Revenue reserve €' 000	Total €' 000
Balance 1 January	35.164	11.211	(3.192)	(279)	42.904
Deferred taxation	-	-	(1)	-	(1)
Revaluation of investments available for sale	-	-	(223)	-	(223)
Revaluation of investment in subsidiary companies	-	-	(867)	-	(867)
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	(17)	17	-
Transfer to the income statement - Permanent diminution in the value of investments available for sale	-	-	193	-	193
Transfer from revenue reserve to revaluation reserve diminution in the value of PCM	-	-	1.591	(1.591)	-
Profit for the year	-	-	-	909	909
Balance 31 December	35.164	11.211	(2.516)	(944)	42.915

Revaluation reserve

The revaluation reserve relates to the revaluation of investments available for sale, revaluation of investment in subsidiary companies and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 20 to 78 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 €' 000	2015 €' 000
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES			
Group loss for the year		(2.039)	(290)
Adjustments for:			
Interest from debt securities	4	(855)	(710)
Interest on loan capital	5	-	505
Loss/(profit) on disposal of equipment	10	41	(3)
Depreciation of premises and equipment	10	395	486
Depreciation of intangible assets	10	239	197
Net foreign exchange gains		(1.042)	(26)
Provisions for impairment	10	4.309	3.816
Permanent diminution in the value of equity investments	16	-	193
Taxation	11	652	567
Cash flows from operating activities before changes in working capital and other items of the statement of financial position		1.700	4.735
Increase of balances with Central Bank		(1.074)	-
Increase in placements with other banks		(2.820)	-
Decrease in loans and advances		37.362	24.491
Decrease in equity investments		131	809
Increase/(decrease) in client deposits		30.112	39.699
Decrease in borrowings		(390)	(515)
Net increase in working capital and other items of the statement of financial position		18.328	912
Cash flows from/(to) operating activities		83.349	70.131
Taxes and special contributions paid		(641)	(572)
Net cash flows from/(to) operating activities		82.708	69.559
CASH FLOWS (TO)/FROM INVESTING ACTIVITIES			
Disposal of discontinued operations net of cash disposed of		138	-
Acquisition of premises and equipment	20	(705)	(811)
Acquisition of intangible assets	21	(260)	(473)
Acquisition/(disposals) of investments in debt securities		(23.393)	(4.504)
Interest from debt securities		855	710
Net cash flows (to)/from investing activities		(23.365)	(5.078)
CASH FLOWS (TO)/FROM FINANCING ACTIVITIES			
Repayment of loan capital		-	(14.869)
Interest on loan capital		-	(505)
Net cash flows (to)/from financing activities		-	(15.374)
Net increase/(decrease) in cash and cash equivalents		59.343	49.107
Effect of exchange rate fluctuations on cash and cash equivalents		1.359	2.709
Cash and cash equivalents at the beginning of the year		135.209	83.393
Cash and cash equivalents at the end of the year	31	195.911	135.209

The notes on pages 20 to 78 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 €' 000	2015 €' 000
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES			
Profit/(loss) for the year		(1.413)	909
Adjustments for:			
Interest from debt securities	4	(855)	(710)
Interest on loan capital	5	-	505
Profit on disposal of equipment	10	41	-
Depreciation of premises and equipment	10	382	472
Depreciation of intangible assets	10	238	196
Net foreign exchange gains		(1.042)	(76)
Provisions for impairment	10	4.273	3.670
Permanent diminution in the value of equity investments	16	-	193
Taxation	11	652	560
Cash flows from operating activities before changes in working capital and other items of the statement of financial position		2.276	5.719
Increase of balances with Central Bank		(1.074)	-
Increase in placements with other banks		(2.820)	-
Decrease in loans and advances		30.209	22.628
Decrease in equity investments		130	808
Increase in client deposits		30.112	39.472
Decrease in borrowings		(390)	(515)
Net decrease in working capital and other items of the statement of financial position		31.850	1.153
Cash flows from operating activities		90.293	69.265
Taxes and special contributions paid		(642)	(566)
Net cash flows from/(to) operating activities		89.651	68.699
CASH FLOWS (TO)/FROM INVESTING ACTIVITIES			
Proceeds from disposal of subsidiary company		308	-
Acquisition of premises and equipment	20	(704)	(788)
Acquisition of intangible assets	21	(260)	(472)
(Acquisition)/disposal of investments in debt securities		(23.393)	(4.503)
Interest from debt securities		855	710
Net cash flows (to)/from investing activities		(23.194)	(5.053)
CASH FLOWS (TO)/FROM FINANCING ACTIVITIES			
Repayment of loan capital		-	(14.869)
Interest on loan capital		-	(505)
Net cash flows (to)/from financing activities		-	(15.374)
Net increase/(decrease) in cash and cash equivalents		66.457	48.272
Effect of exchange rate fluctuations on cash and cash equivalents		(65)	3.228
Cash and cash equivalents at the beginning of the year		129.364	77.864
Cash and cash equivalents at the end of the year	31	195.756	129.364

The notes on pages 20 to 78 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. COMPANY INCORPORATION AND PRINCIPAL ACTIVITIES

The Cyprus Development Bank Public Company Limited (the "Company") was incorporated in the Republic of Cyprus in 1963. The Company's business name is "cdbbank" and is the parent company of the cdbbank Group.

The principal activities of the Company, which remained the same as in the previous year, are commercial banking operations.

The principal activities of the Russian subsidiary company, which remained the same as in the previous year, Joint Stock Company cdbbank, are commercial banking operations.

The principal activities of the subsidiary company, Global Capital Limited, which remained the same as in the previous year, are portfolio management as well as the provision of financial advisory, investment banking and brokerage services.

2. BASIS OF PREPARATION

(a) Going concern

These consolidated and separate financial statements have been prepared under the going concern basis, following the Management's assessment that the Group and the Company will continue as a going concern.

In February 2017, the Central Bank of Cyprus, based on its Supervisory Review and Evaluation Process (SREP) for 2016 required the Group to increase its capital base by €14 million and to maintain on a consolidated basis a total Capital Requirement of 13.2% from 11.45% as at 31 December 2016. This is an addition to the requirement for the Group to maintain a capital conservation buffer, which currently stands at 1.25% of its total risk weighted exposures. The Company is taking steps to comply with the set capital requirement.

Furthermore, the Management Body and Management are closely monitoring the measures described in note 32 (e) to the consolidated financial statements and the separate financial statements and consider that the Group is able to continue its operations as a going concern and that it will be able to meet its obligations as they fall due.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113 and are for the year ended 31 December 2016.

(c) Basis of measurement

The financial statements have been prepared under the historical cost convention, except as adjusted to include the revaluation of the freehold premises of the Company and the reporting of equity investments, investments in subsidiary companies and derivatives at their assessed fair values and loans and advances to customers at amortised cost.

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations

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

The following Standards, Amendments to Standards and Interpretations had been issued but are not yet effective as at the reporting date:

(i) Standards and interpretations adopted by the EU

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018).

(ii) Standards and interpretations not adopted by the EU

- IAS 7 (Amendments) "Disclosure Initiative" (effective for annual accounting periods beginning on or after 1 January 2017).
- IAS 12 (Amendments) "Recognition of Deferred Tax Assets for Unrealised Losses" (effective for annual accounting periods beginning on or after 1 January 2017).
- Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2017 (IFRS 12) and 1 January 2018 (IFRS 1 and IAS 28)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

(ii) Standards and interpretations not adopted by the EU (continued)

- IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 15 (Clarifications) "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018).
- IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018).
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018).
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

The Management Body expects that the adoption of these standards and interpretations in future periods will not have a material effect on the financial statements of the Group and of the Company except from the adoption of IFRS 9 that could change the classification and measurement of financial assets as follows:

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments which is effective from 1st January 2018. The Group currently plans to apply IFRS 9 initially on 1 January 2018.

Classification and Measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. 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 the objective of which is to hold financial assets in order to collect contractual cash flows, and
- their contractual cash flows represent solely payments of principal and interest.

Financial assets will be measured at FVOCI if:

- they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets, and
- their contractual cash flows represent solely payments of principal and interest.

Financial assets not meeting either of these two business models are measured at FVTPL.

On initial recognition, the Group may designate a financial asset as FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

For financial liabilities, IFRS 9 largely retains the existing requirements in IAS 39. However, for financial liabilities designated at FVTPL, the amount of change in the fair value that is attributable to changes in the credit risk of the liability, may be presented in other comprehensive income.

Impairment Model

IFRS 9 replaces the existing 'incurred loss' impairment approach with an Expected Credit Loss ('ECL') model, which could result in earlier recognition of credit losses compared with IAS 39.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. BASIS OF PREPARATION (continued)

(d) Adoption of new and revised International Financial Reporting Standards and Interpretations (continued)

IFRS 9 Financial Instruments (continued)

Impairment Model (continued)

The new impairment model will be applicable to the following financial instruments that are not measured at FVTPL:
- debt instruments measured at FVOCI,
- lease receivables,
- loan commitments and
- financial guarantees

Under IFRS 9 the Group will recognise loss allowance at an amount equal to lifetime ECL except in the following cases where the amount recognized will be 12-month ECL:
- financial instruments on which credit risk has not experienced a significant increase since origination
- debt investment securities that are determined to have low credit risk at the reporting date

The methodology required for quantification of expected credit losses will be based on an unbiased and weighted consideration of the occurrence of a range of possible future scenarios that could impact the collection of contractual cash flows, taking into account the time-value of money, all available information relevant to past events, and current conditions and projections of macro-economic factors deemed relevant to the estimation of this amount (e.g. GNP, house pricing, unemployment rate, etc.). The need to consider a range of economic scenarios and how they could impact the loss allowance is a subjective feature of the IFRS 9 ECL model.

The key inputs into the measurement of ECL are likely to be:
- probability of default ('PD),
- loss given default ('LGD'), and
- exposure at default ('EAD').

Preliminary impact of IFRS 9 on the Group

The most significant impact on the Group's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Management is not yet able to provide quantitative information about the expected impact, since the Group is in the process of building and testing models, assembling data and calibrating the impairment stage transfer criteria regulatory capital position. The impact is also dependent on finalizing the classification assessment and the circumstances at 1 January 2018. However, Management expects loss allowances under IFRS 9 to be larger than IAS 39.

IFRS 9 Implementation Programme

The Group expects that it will be in a position to provide quantitative information on the impact of the transition to IFRS 9 on its financial position and performance in its 2017 financial statements. This will include the impact on its CET1 and key regulatory ratios.

(e) Use of estimates and judgments

The preparation of financial statements in accordance with IFRSs requires from Management the exercise of judgment, to make estimates and assumptions that influence the application of accounting principles and the related amounts of assets and liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

The estimates and underlying assumptions are revised on a continuous basis. Revisions in accounting estimates are recognised in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

Judgments

Information about judgments in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:
- Note 18 "Consolidated financial statements" - consolidation: whether the Group has de facto control over the investee.
- Note 16 "Impairment of available-for-sale financial assets" - determine whether an investment is other-than-temporarily impaired.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgments (continued)

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 15 - provision for impairment of loans and advances to customers
- Note 20 - impairment test: key assumptions underlying recoverable amounts and value in use.
- Note 29 - recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.
- Note 11 "Income taxes" - to determine any provision for income taxes.
- Note 18 "Impairment of investments in subsidiaries" - determine the recoverability of investments in subsidiaries whenever indicators of impairment are present.
- Note 19 "Assets/Liabilities held for sale" - determine costs to sell involves a degree of uncertainly

(f) Fair value of financial assets and liabilities

The Group and the Company have applied the new definition of fair value as set out in note 27 to the financial statements. The change had no significant impact on the measurements of the Group's and the Company's assets and liabilities, but the Group and the Company have included new disclosures in the financial statements, which are required under IFRS 13.

The Group and the Company use the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

(g) Functional and presentation currency

The financial statements of the Group and of the Company are for the year ended 31 December 2016 and are presented in Euro (€), which is the functional currency of the Company and its subsidiaries in Cyprus. The functional currency of the foreign subsidiary held for sale is Russian Roubles.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in respect of items which are considered material for the results for the year and the reporting of the financial condition of the Group and the Company, are stated below.

Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company, and of its subsidiary companies (note 18), which together are referred to as the "Group".

All inter-company transactions and balances and any unrealised income and expenses between the parent company and the subsidiary companies of the Group are eliminated on consolidation.

Foreign currency

Transactions in foreign currencies are translated into the respective functional currency of the Group at the rates ruling at the date of the transaction. Other assets and liabilities denominated in foreign currencies are translated into Euro at the rates of exchange ruling at the end of the year. Exchange differences arising from the above are dealt with in the income statement.

The income statement of the foreign subsidiary company is translated into Euro using the mid-rate of exchange of the year. The assets and liabilities of the foreign subsidiary are translated into Euro at the rate of exchange ruling at the end of the year. The exchange difference arising from the above is dealt with directly in exchange difference reserves.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Turnover

The Group's and the Company's turnover comprises interest income, fee and commission income, foreign exchange gains, dividends and profits on disposal of equity investments, fees from services rendered and other income.

Income recognition

Interest receivable and other income is recognised on an accruals basis. Accrued interest and other income from loans with arrears of over three months and which are not fully secured with tangible collateral, as well as accrued interest and other income from accounts considered doubtful, is not taken to the income statement, but is transferred to suspense account.

Interest and other income credited to suspense account are transferred to the income statement when collected or when the said loans or accounts cease to be classified as stated above.

Dividends receivable from equity investments are recognised as income in the income statement in the period in which they become payable. Interest earned on investments in government and corporate bonds is included in interest income for the period during which the investments are held.

Income from fees and the provision of services is recognised on the basis of the progress of execution and completion of the transaction so as to match it with the cost of providing the service.

Loans and advances

Loans and advances originated by providing money directly to the borrower are measured initially at cost, which is the fair value of the consideration given to originate the loan plus transaction costs. Loans and advances are subsequently measured at their amortised cost using the effective interest rate method.

The amortised cost of a loan is the amount at which the financial asset is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

Loans and advances are stated on the statement of financial position of the Company and of the Group net of provisions for impairment of doubtful accounts. Loans and advances are considered doubtful when there are objective indications that the Group will not collect all amounts due in accordance with the contractual terms, unless such loans and advances are secured by tangible collateral or other indications exist that the amounts due will be collected.

Objective evidence that loans and advances are impaired include significant financial difficulty of the borrower, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise or indications that the borrower will enter bankruptcy.

The Group considers evidence of impairment for loans and advances at both a specific loan and collective level. All individually significant loans and advances are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together exposures with similar risk characteristics.

Provisions are made to reduce doubtful accounts to their estimated recoverable amount. The amount of the specific provision is the difference between the book value and the estimated recoverable amount of the loan taking into account the estimated recoverable amounts from tangible collateral and guarantees. In assessing collective impairment the Group classifies loans and advances into categories with similar risk characteristics and applies probabilities of default and loss given defaults, adjusted for management's judgement for current economic and credit conditions. Consideration is also taken on the emergence period which indicates the approximate time required for non-performance to be identified. Loans and advances are written off to the extent that their recovery is no longer feasible. Doubtful accounts are monitored continuously and provisions for doubtful accounts are released only when events and factors make the collection of doubtful amounts feasible.

The Group derecognises a financial asset when the contractual rights to the cash flows expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest or obligation in transferred assets that is created or retained by the Group is recognised as a separate asset or liability.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and advances (continued)

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

Investments

Equity investments

Equity investments acquired through the Group's financing and investment operations are accounted for as equity portfolio. These investments are classified as investments available for sale.

Investments available for sale include investments intended to be held for an indefinite period of time and can be sold in response to changes in their market value, risks and liquidity requirements.

These investments are initially recorded at cost on the date of acquisition and revalued at their assessed fair value on 31 December each year.

Investments listed on stock exchanges are revalued at their assessed fair value on the basis of closing bid prices published by the stock exchange on which they are listed on 31 December each year. Unlisted investments are revalued at their assessed fair value using recognised models and valuation indices adjusted according to the specific circumstances of the particular company. Fair value adjustments are transferred to the revaluation reserve.

Profits or losses on the disposal of equity investments are taken to the income statement in the year in which they are realised. Any related balance in the revaluation reserve is taken to the income statement.

When there is objective evidence that an available for sale investment is impaired, the cumulative loss that has been recognised in other comprehensive income is reclassified to the income statement. The amount of the cumulative loss that is reclassified from other comprehensive income to the income statement is the difference between the acquisition cost and current fair value, less any impairment loss on that investment previously recognised in the income statement.

If, in a subsequent period, the fair value of an impaired available for sale investment increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal recognised in other comprehensive income.

Investments in government securities and other debt securities

Investments in government securities and other debt securities with fixed maturity, which the Group has both the intention and the ability to hold to maturity, are classified as held-to-maturity.

Held-to-maturity investments are carried at their amortised cost, which is calculated taking into account the cost of acquisition, any unamortised premium or discount and deducting any impairment loss.

The amount of the impairment loss on investments held-to-maturity, which represents the difference between the carrying amount of the investment and the present value of future expected cash flows, discounted at the original effective interest rate of the investment, is taken to the income statement. The carrying amount of the investment is reduced accordingly.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, the impairment loss previously recognised is reversed and the reversal is credited to the income statement.

Subsidiary companies

Subsidiary companies are investees controlled by the Group. The Group "controls" an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiary companies (continued)

The subsidiary companies are consolidated using the acquisition method of accounting. Any excess of the cost of acquisition over the Group's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated statement of financial position. The investments in the subsidiary companies are fully eliminated on consolidation in the consolidated financial statements of the Group.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as transactions with owners in their capacity as owners. Adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary. No adjustments are made to goodwill and no gain or loss is recognised in the income statement.

The investments in the subsidiary companies are stated in the Company's separate financial statements at their assessed fair value. Adjustments to the assessed fair value of subsidiary companies are transferred to the revaluation reserve.

On the disposal or partial disposal of an investment in a subsidiary company, the difference between the sale proceeds and the book value of the shareholding disposed is transferred to the income statement. Any related balance in the revaluation reserve is taken to the income statement.

Premises and equipment

Freehold premises are used in the operations of the Group and are stated at valuation on the basis of open market value for existing use as assessed by independent professional valuers less accumulated depreciation. Revaluation surpluses or deficits are credited or debited to the revaluation reserve. Any deficit not covered by accumulated revaluation surpluses in the revaluation reserve for the specific asset, is written off to the income statement.

Equipment is measured at cost less accumulated depreciation. Material expenses which add future economic benefit are capitalised whereas other expenses are written off to the income statement.

Depreciation on premises is provided on the straight line method in equal annual instalments over a period of 33 years. No depreciation is provided on land.

Depreciation on equipment is provided on the straight line method in equal annual instalments over their estimated useful life, which ranges from five to ten years.

On disposal of premises and equipment, the difference between the net proceeds and the net book value is transferred to the income statement. Any related balance in the revaluation reserve is taken to revenue reserve.

Intangible assets

Intangible assets include computer software and goodwill.

Computer software is stated at cost less accumulated depreciation. Depreciation on computer software is provided on the straight line method in equal annual instalments over their estimated useful life, which ranges from three to five years.

Maintenance expenses of computer software are written off to the income statement in the year in which they are incurred.

Goodwill represents the excess of the cost of the acquisition over the fair value of the Group's share of identifiable assets, liabilities and contingent liabilities of the acquired entity at the date of acquisition. After initial recognition, goodwill is measured at cost less any impairment loss. Goodwill is reviewed for impairment annually as at 31 December or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Cash and cash equivalents

Cash and cash equivalents consist of cash and other securities which are highly liquid or repayable within three months from the date of their acquisition.

Client deposits

Client deposits are initially measured at the fair value of the consideration received, which equals the amount deposited by the client minus incremental direct transaction costs. Subsequently, client deposits are measured at their amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loan capital
Bonds issued by the Company are initially recorded at fair value, which equals the amount received, and subsequently are measured at their amortised cost using the effective interest rate method.

Share capital
The Company's own shares are stated as equity.

Guarantees
Guarantees issued comprise performance and tender guarantees and other letters of guarantee given to clients and represent irrevocable obligations of the Company to pay a specific amount to the beneficiary only if the terms of the specific contractual obligation are not adhered to.

Liabilities arising from guarantees are initially measured at fair value and the initial fair value is amortised over the life of the guarantee. The liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

Derivatives
Derivatives consist of forward exchange rate contracts.

Derivatives are initially recorded at cost and then revalued at their assessed fair value. The assessed fair value is estimated on the basis of current prices and analyses of discounted cash flows. Derivatives with positive assessed fair value are accounted for as assets and derivatives with negative assessed fair value are accounted for as liabilities.

All derivatives are recorded as trading derivatives and adjustments to their assessed fair value are taken to the income statement.

Retirement benefits to staff
The Company operates a defined benefit contribution plan for its permanent employees. As per the collective agreement signed on 19 March 2014 between the Cyprus Bankers Employers Association and the Cyprus Union of Bank Employees, the Company contributes to the Provident Fund 9,5% (2015: 9%) and 2% to the Union's Solidarity Fund (2015: 2%). Employees contribute 3%-10% on their basic salary plus COLA. The Company's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

Taxation
Provision for taxation is made in accordance with the tax legislation and tax rates applicable in Cyprus and the Russian Federation, where the Group carries on operations. Corporation tax in Cyprus is calculated at the rate of 12.5%. Corporation tax in the Russian Federation is calculated at the rate of 20%. Provision for deferred taxation is also made for all temporary differences between the carrying values of assets and liabilities for financial reporting purposes and their tax base. Deferred taxation is calculated using the tax rates that were applicable at the end of the year. Any deferred tax assets arising from deductible temporary differences are recognised only to the extent that it is expected that taxable profits will be available in the future.

Special Levy
According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0.15% on qualifying deposits held by each credit institution on 31st December of the year preceding the year of taxation. Based on the latest amendment of the above mentioned Law published in the official Gazette on the 17th December 2015, as from 1st January 2015 until 31st of December 2021, 35/60 of the funds received will be deposited to the Recapitalisation Fund incorporated pursuant to the Law 190(I) 2015.

Impairment of non-financial assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The loss from impairment of goodwill is not reversible. The loss from impairment of other non-financial assets is reversible only to the extent that the carrying value does not exceed net carrying value that the non-financial asset would have if the impairment loss was not recognised.

Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographic area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

Net profit from discontinued operations includes the net total of operating profit and loss before tax from discontinued operations (including net gain or loss on sale before tax) and discontinued operations tax expense.

Assets held for sale

The Group classifies assets as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Company is committed to a sale plan involving loss of control of a subsidiary, the total assets and liabilities of that subsidiary are classified as held for sale, regardless of whether non-controlling interest in its former subsidiary after the sale is retained. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and gains or losses from subsequent measurement are recognised in the income statement. A gain is only recognised to the extent that it is not in excess of the cumulative impairment loss that has been recognised.

Comparatives

Comparatives presented in the Financial Statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

4. INTEREST INCOME

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Loans and advances	14.226	17.388	14.226	17.388
Balances with banks	307	32	304	18
Debt securities	855	710	855	710
	15.388	18.130	15.385	18.116

5. INTEREST EXPENSE

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Client deposits	5.420	7.075	5.418	7.073
Balances with banks	382	3	380	-
Loan capital	-	505	-	505
	5.802	7.583	5.798	7.578

6. OTHER INCOME

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Profit from disposal of subsidiary (note 12)	-	-	105	-
Profit from disposal of investments available for sale	1		-	
Fees and commissions receivable	3.033	2.386	2.585	1.715
Other income	58	28	45	33
	3.092	2.414	2.735	1.748

7. NET FOREIGN EXCHANGE GAINS

Net foreign exchange gains comprise gains less losses related to the conversion of monetary assets and liabilities in foreign currency at the reporting date, realised exchange gains/(losses) from transactions in foreign currency settled during the year and the revaluations of foreign exchange derivatives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. STAFF COSTS

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Staff costs:				
Salaries, employer's contributions and other staff benefits	5.596	4.309	5.311	3.976
Termination benefits	524	-	524	-
Cost of retirement benefits	382	278	382	278
	6.502	4.587	6.217	4.254

The number of persons employed by the Group as at 31 December 2016 was 178 (31 December 2015: 151) and by the Company 133 (31 December 2015: 98).

Retirement benefits

The Company operates a defined benefit contribution plan for its permanent employees. As per the collective agreement signed on 19 March 2014 between the Cyprus Bankers Employers Association and the Cyprus Union of Bank Employees, the Company contributes to the Provident Fund 9.5% (2015: 9%) and 2% to the Union's Solidarity Fund (2015: 2%). Employees contribute 3%-10% on their basic salary plus COLA. The Company's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

9. OTHER OPERATING EXPENSES

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Consultancy and legal fees	246	131	219	131
Regulatory Supervisory fees	247	97	247	97
Fees and commissions payable	432	202	425	202
Operating leases of buildings	293	141	291	141
Repairs and maintenance	571	546	566	546
Utilities	235	196	220	196
Other operating expenses	1.142	948	1.047	795
	3.166	2.261	3.015	2.108

10. PROFIT/(LOSS) BEFORE TAX

The profit/(loss) before tax for the year is stated after charging the following:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Directors' emoluments:				
Fees	145	101	145	101
Expenses	5	5	5	5
Independent auditors' remuneration				
Audit services	64	47	43	27
Other non-audit services	4	6	4	6
Other assurance services	18	17	16	16
Loss/(profit) on disposal/write off of equipment	41	(3)	41	-
Depreciation on:				
Premises and equipment	395	486	382	472
Intangible assets				
Computer software	239	197	238	196
Provisions for impairment:				
Loans and advances	3.976	3.643	3.976	3.644
Receivables and other assets	48	173	12	26
Financial guarantees and commitments	285	-	285	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. TAXATION

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Corporation tax	1	4	-	-
Defence Fund	(1)	3	-	-
Deferred taxation	10	(6)	10	(6)
Special tax on deposits	642	566	642	566
Charge for the year	652	567	652	560

Corporation tax in Cyprus is calculated at the rate of 12.5%. The foreign subsidiary company is subject to corporation tax in the Russian Federation at the rate of 20% on its taxable income. Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0.15% on qualifying deposits held by each credit institution on 31st December of the year preceding the year of taxation. Based on the latest amendment of the above mentioned Law published in the official Gazette on the 17th December 2015, as from 1st January 2015 until 31st of December 2021, 35/60 of the funds received will be deposited to the Recapitalisation Fund incorporated pursuant to the Law 190(I) 2015.

Reconciliation of tax based on the taxable income and tax based on accounting profits:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
(Loss)/profit before tax	(891)	1.447	(761)	1.469
Corporation tax on the (loss)/profit for the year at the rates applicable in Cyprus	(111)	181	(95)	184
Tax effect of:				
Expenses not deductible for tax purposes	3	135	87	41
Allowances and income not subject to tax	(20)	-	(100)	-
Tax losses brought forward	-	(367)	-	(225)
Loss for the year	128	55	108	-
	-	4	-	-
Deferred tax	10	(6)	10	(6)
Defence fund	-	3	-	-
Special tax on deposits	642	566	642	566
Charge for the year	652	567	652	560

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. LOSS AFTER TAX FROM DISCONTINTUED OPERATIONS

THE GROUP

On 22 March 2017 an agreement was signed for the sale both of the entire share capital of Joint Stock Company cdbbank and for the assignment of the Bank's subordinated loan to its subsidiary of US$3m. The total consideration for these transactions is €6.150 thousand and they will become effective once the Central Bank of Russia approves the transfer of the shares to the new shareholders. An application for such approval has been filed.

On 15 January 2016 cdbbank signed an agreement for the sale of its wholly owned subsidiary PCM Advisers Limited. On 1 November 2016, following the requisite approval of the buyer by CySEC, the transfer of ownership from cdbbank to the buyer was completed, for a total consideration of €308 thousand.

According to the provisions of the IFRS 5, "Non-Current assets held for sale and discontinued operations", the comparable Group's results for the year ended 31 December 2015 have been adjusted to reflect the reclassification from continuing operations to discontinued operations of the Company's subsidiaries, JSC cdbbank and PCM Advisers Ltd.

The total effect of the Group's discontinued operations in Russia and the completion of the disposal of PCM Advisers Ltd, is presented below and is further analysed by company under (i) and (ii) below:

Discontinued operations	2016 €' 000	2015 €' 000
Turnover	1.252	1.313
Net interest income	391	656
Fees and commissions	109	140
Net foreign exchange gains	106	(5)
Total income	606	791
Total expenses	(890)	(794)
Provisions for impairment	(515)	(1.127)
Loss before tax	(799)	(1.130)
Tax	198	(40)
Loss after tax	(601)	(1.170)
Profit on disposal of subsidiary	105	-
Loss from discontinued operations net of tax	(496)	(1.170)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. LOSS AFTER TAX FROM DISCONTINUED OPERATIONS (continued)

THE GROUP

(i) JSC cdbbank

	2016	2015
	€' 000	€' 000
Turnover	1.229	1.271
Net interest income	391	656
Fees and commissions	86	98
Net foreign exchange gains	106	(5)
Total income	583	749
Total expenses	(867)	(760)
Provisions for impairment	(515)	(432)
Loss before tax	(799)	(443)
Tax	198	(40)
Loss after tax	(601)	(483)

(i) PCM Advisers Ltd

Discontinued operations	2016	2015
	€ '000	€ '000
Turnover	23	42
Fees and commissions	23	42
Total expenses	(23)	(34)
Provision for impairment	-	(695)
Profit/(loss) before tax	-	(687)
Tax	-	-
Loss after tax	-	(687)
Profit on disposal of subsidiary	105	-
Profit for the year	105	(687)

Provision for impairment relates to goodwill on acquisition of PCM Advisers Ltd written off in 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. BASIC AND DILUTED (LOSS)/EARNING PER SHARE

Basic and diluted (loss)/earnings per share	**THE GROUP**		**THE COMPANY**	
	2016	2015	2016	2015
(Loss)/profit attributable to the owners of the parent company (€'000)	(2.035)	(293)	(1.413)	909
Weighted average number of shares in issue during the year (€'000)	25.961	25.961	25.961	25.961
Basic and fully diluted (loss)/profit per share (cent)	(7,84)	(1,13)	(5,44)	3,50

Basic and diluted (loss)/earnings per share from continuing operations	**THE GROUP**		**THE COMPANY**	
	2016	2015	2016	2015
(Loss)/profit attributable to the owners of the parent company (€'000)	(1.539)	877	(1.413)	909
Weighted average number of shares in issue during the year (€'000)	25.961	25.961	25.961	25.961
Basic and fully diluted (loss)/profit per share (cent)	(5,93)	3,38	(5,44)	3,50

Basic and diluted (loss)/earnings per share from discontinued operations	**THE GROUP**		**THE COMPANY**	
	2016	2015	2016	2015
(Loss) attributable to the owners of the parent company (€'000)	(496)	(1.170)	--	--
Weighted average number of shares in issue during the year (€'000)	25.961	25.961	--	--
Basic and fully diluted (loss) per share (cent)	(1,91)	(4,51)	--	--

The Group presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Company by the weighted-average number of ordinary shares during the period. Diluted EPS is determined by adjusting the profit or loss that is attributable to ordinary shareholders and the weighted-average number of ordinary shares for the dilutive potential ordinary shares, which comprise share options granted to employees.

14. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		**THE COMPANY**	
	2016	2015	2016	2015
	€'000	€'000	€'000	€'000
Cash	1.211	1.577	1.211	1.247
Balances with central banks	80.746	88.947	80.746	87.838
	81.957	90.524	81.957	89.085
Balances with other banks	117.848	44.685	117.693	40.279

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.297 thousand (2015: €3.937 thousand) for the Group and €4.297 thousand (2015: €3.899 thousand) for the Company.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in Note 32(a).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. LOANS AND ADVANCES

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€'000	€'000	€'000	€'000
Loans and advances	336.685	373.422	336.685	366.269
Impairment losses individually assessed	(64.695)	(53.543)	(64.695)	(52.656)
Impairment losses collectively assessed	(1.577)	(2.837)	(1.577)	(2.837)
	270.413	317.042	270.413	310.776

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 32 – Financial Risk Management.

16. INVESTMENTS IN EQUITIES

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€'000	€'000	€'000	€'000
Cost				
Balance 1 January	9.955	10.763	8.168	8.976
Acquisitions	-	-	-	-
Disposals	(131)	(808)	(130)	(808)
Balance 31 December	9.824	9.955	8.038	8.168
Permanent diminution				
Balance 1 January	(9.180)	(9.280)	(7.711)	(7.811)
Disposals	-	293	-	293
Charge for the year	-	(193)	-	(193)
Balance 31 December	(9.180)	(9.180)	(7.711)	(7.711)
Revaluation at fair value				
Balance 1 January	(8)	41	24	54
Increase/(decrease) in fair value	4	(242)	3	(223)
Permanent diminution	-	193	-	193
Disposals	(3)	-	(3)	-
Balance 31 December	(7)	(8)	24	24
Balance 31 December at fair value	637	767	351	481
Investments in Cyprus companies:				
Listed On the Cyprus Stock Exchange	589	583	351	347
Unlisted	48	184	-	134
	637	767	351	481
Investments in equities are classified as:				
Available for sale	637	767	351	481

Additional analysis and information regarding market risk are set out in note 32 – Financial Risk Management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. INVESTMENTS IN DEBT SECURITIES

THE GROUP AND THE COMPANY

	2016 €' 000	2015 €' 000
Held-to-maturity		
Government bonds	21.424	19.127
Treasury bills	13.187	1.257
Corporate bonds	9.680	514
	44.291	20.898
Listed:		
On the Cyprus Stock Exchange	13.187	6.801
On foreign stock exchanges	31.104	14.097
	44.291	20.898

18. INVESTMENTS IN SUBSIDIARY COMPANIES / SUBSIDIARY COMPANY HELD FOR SALE

THE COMPANY

The companies included in the consolidated financial statements of the Group and their activities are:

	Shareholding 2016 (%)	Shareholding 2015 (%)	Activities
In Cyprus:			
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services.
PCM Advisers Limited	-	100,00	Provision of investment services
In the Russian Federation:			
JSC cdbbank	100,00	100,00	Commercial banking operations

Investment in Subsidiary Companies

Shareholding interest in Global Capital Limited

Global Capital Limited is the parent company of two companies that are registered and operate in Cyprus. The companies of the group are:

	Shareholding 2016 (%)	Shareholding 2015 (%)	Activities
Global Capital Securities and Financial Services Limited	99,99	99,99	Portfolio management, provision of financial advisory services and brokerage services
Global Capital Finance Limited	100,00	100,00	Inactive

The Company's balances with Global Capital Limited are shown below:

	2016 €' 000	2015 €' 000
Cost 1 January	2.281	2.281
Adjustment to assessed fair value	(1.251)	(1.160)
Assessed fair value of investment	1.030	1.121
Amounts due to subsidiary company	(319)	(174)
Amounts due by subsidiary company	101	95
Balance 31 December	812	1.042

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. INVESTMENTS IN SUBSIDIARY COMPANIES / SUBSIDIARY COMPANY HELD FOR SALE (continued)

THE COMPANY

Shareholding interest in PCM Advisers Limited

The Company's balances with PCM Advisers Limited are shown below:

	2016 €' 000	2015 €' 000
Cost	-	1.795
Adjustment to assessed fair value	-	(1.591)
Assessed fair value of investment	-	204
Amounts due to subsidiary company	-	(172)
Balance 31 December	-	32

The disposal of PCM Advisers was completed on 1 November 2016 (note 12).

Subsidiary company held for sale

Shareholding interest in JSC cdbbank

On 22 March 2017 an agreement was signed for the sale both of the entire share capital of Joint Stock Company cdbbank and for the assignment of the Company's subordinated loan to its subsidiary of US$3m. The transactions will become effective once the Central Bank of Russia approves the transfer of the shares to the new shareholders. An application for such approval has been filed (notes 12 & 19).

The Company's balances with JSC cdbbank are shown below:

	2016 €' 000	2015 €' 000
Cost	6.442	6.442
Exchange differences	(2.219)	(2.816)
	4.223	3.626
Adjustment to assessed fair value	(920)	(454)
Assessed fair value of investment	3.303	3.172
Amounts due to subsidiary company	(3)	(85)
Amounts due by subsidiary company	2.876	3.014
Balance 31 December	6.176	6.101

The amounts due by the subsidiary company include a subordinated loan amounting to €2.853 thousand (USD3.006 thousand) which bears interest at a floating rate equal to the six-month USD LIBOR applicable from time to time plus 2% and it is repayable on 4 June 2023. The remaining €23 thousand relate to a deposit the Company holds in JSC cdbbank.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. ASSETS/LIABILITIES OF SUBSIDIARY COMPANY HELD FOR SALE

THE GROUP

On 22 March 2017 an agreement was signed for the sale both of the entire share capital of Joint Stock Company cdbbank and for the assignment of the Company's subordinated loan to its subsidiary of US$3m. The total consideration for these transactions is €6.150 thousand and they will become effective once the Central Bank of Russia approves the transfer of the shares to the new shareholders. An application for such approval has been filed.

According to the provisions of the IFRS5, "Non-Current assets held for sale and discontinued operations", all assets and liabilities of the subsidiary held for sale have been reclassified and are presented on the face of the consolidated statement of financial position under the category Asset/Liabilities of subsidiary held for sale (note 12).

At 31 December 2016 assets and liabilities of the subsidiary company JSC cdbbank included in the consolidated statement of financial position were stated at fair value and were as follows:

Assets	€' 000
Cash and balances with banks	6.172
Loans and advances	5.394
Premises and equipment	117
Deferred tax	287
Property held for sale	596
Receivables and other assets	232
Total assets held for sale	12.798
Liabilities	
Client Deposits	6.422
Accruals and other liabilities	200
Total liabilities held for sale	6.622

The fair value measurement for the subsidiary held for sale of €3.303 thousand has been categorised as a Level 3 fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. PREMISES AND EQUIPMENT

THE GROUP	Premises €' 000	Equipment €' 000	Total €' 000
2016			
Cost or valuation			
Balance 1 January	5.871	3.287	9.158
Discontinued operations	(197)	(73)	(270)
Additions	389	316	705
Write-offs	(66)	(369)	(435)
Balance 31 December	5.997	3.161	9.158
Depreciation			
Balance 1 January	767	2.593	3.360
Discontinued operations	(93)	(55)	(148)
Charge for the year	170	225	395
On write-offs	(66)	(369)	(435)
Balance 31 December	778	2.394	3.172
Net book value 31 December	5.219	767	5.986
Historic net book value of owned premises stated at valuation 31 December	3.830	-	3.830

	Premises €' 000	Equipment €' 000	Total €' 000
2015			
Cost or valuation			
Balance 1 January	5.671	2.735	8.406
Exchange differences	(23)	(7)	(30)
Additions	241	570	811
Write-offs	(18)	(11)	(29)
Balance 31 December	5.871	3.287	9.158
Depreciation			
Balance 1 January	601	2.286	2.887
Exchange differences	(8)	(6)	(14)
Charge for the year	192	323	515
On write-offs	(18)	(10)	(28)
Balance 31 December	767	2.593	3.360
Net book value 31 December	5.104	694	5.798
Historic net book value of owned premises stated at valuation 31 December	3.700	-	3.700

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. PREMISES AND EQUIPMENT (continued)

THE COMPANY	Premises €' 000	Equipment €' 000	Total €' 000
2016			
Cost or valuation			
Balance 1 January	5.562	2.952	8.514
Additions	389	315	704
Write-offs	(66)	(345)	(411)
Balance 31 December	5.885	2.922	8.807
Depreciation			
Balance 1 January	601	2.285	2.886
Charge for the year	159	223	382
On write-offs	(66)	(344)	(410)
Balance 31 December	694	2.164	2.858
Net book value 31 December	5.191	758	5.949
Historic net book value of owned premises stated at valuation 31 December	3.802	-	3.802

	Premises €' 000	Equipment €' 000	Total €' 000
2015			
Cost or valuation			
Balance 1 January	5.339	2.405	7.744
Additions	241	547	788
Write-offs	(18)	-	(18)
Balance 31 December	5.562	2.952	8.514
Depreciation			
Balance 1 January	459	1.973	2.432
Charge for the year	160	312	472
On write-offs	(18)	-	(18)
Balance 31 December	601	2.285	2.886
Net book value 31 December	4.961	667	5.628
Historic net book value of owned premises stated at valuation 31 December	3.557	-	3.557

The Company's freehold premises were valued by external professional valuers on 31 December 2014 at open market value on the basis of existing use. The deficit arising from the revaluation of freehold premises amounting to €419 thousand less related deferred tax of €42 thousand, was transferred to the revaluation reserve. The Management believes that the fair value change compared to 2014 valuation is not significant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. PREMISES AND EQUIPMENT (continued)

The net book value of freehold premises, on a cost less accumulated depreciation basis, as at 31 December 2016 would have amounted to €3.723 thousand (2015: €3.530 thousand). The net book value of leasehold premises as at 31 December 2016 amounts to €79 thousand (2015: €27 thousand).

21. INTANGIBLE ASSETS

	THE GROUP			THE COMPANY
	Goodwill	Software	Total	Software
2016	€' 000	€' 000	€' 000	€' 000
Cost or valuation				
Balance 1 January	1.037	3.841	4.878	3.693
Discontinued operations	(1.037)	-	(1.037)	-
Additions	-	260	260	260
Write-offs	-	(41)	(41)	(41)
Balance 31 December	-	4.060	4.060	3.912
Depreciation and impairment losses				
Balance 1 January	1.037	3.204	4.241	3.057
Discontinued operations	(1.037)	-	(1.037)	-
Charge for the year	-	239	239	238
On write-offs	-	-	-	-
Balance 31 December	-	3.443	3.443	3.295
Net book value 31 December	-	617	617	617

	THE GROUP			THE COMPANY
	Goodwill	Software	Total	Software
2015	€' 000	€' 000	€' 000	€' 000
Cost or valuation				
Balance 1 January	1.037	3.368	4.405	3.221
Additions	-	473	473	472
Balance 31 December	1.037	3.841	4.878	3.693
Depreciation and impairment losses				
Balance 1 January	342	3.007	3.349	2.861
Charge for the year	695	197	892	196
Balance 31 December	1.037	3.204	4.241	3.057
Net book value 31 December	-	637	637	636

Goodwill relates to the acquisition of PCM Advisers Ltd, and represents the difference between the fair value of net assets acquired and the total consideration paid. In 2015 the total balance of goodwill was written off.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Fees receivable	42	22	42	22
Sundry debtors and other assets	3.493	2.316	2.863	1.354
Assessed fair value of derivatives	114	27	114	72
	3.649	2.365	3.019	1.448

Derivatives consist of forward exchange rate contracts. The nominal value and assessed fair value of derivatives are as follows:

	THE GROUP		THE COMPANY	
		Assessed		Assessed
	Nominal	fair value	Nominal	fair value
	value	Asset	value	Asset
Forward exchange rate contracts	€' 000	€' 000	€' 000	€' 000
At 31 December 2016	5.000	114	5.000	114
At 31 December 2015	6.789	27	9.089	72

23. CLIENT DEPOSITS

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Demand deposits	204.894	152.410	204.894	151.304
Fixed-term or notice deposits	254.487	282.705	254.487	277.964
	459.381	435.115	459.381	429.268

Maturities of client deposits are shown in note 32 – Financial Risk Management.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. BORROWINGS

THE GROUP AND THE COMPANY

	2016 € '000	2015 € '000
Foreign borrowings	-	390

Maturities of borrowings are shown in note 32 – Financial Risk Management.

25. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE COMPANY	
	2016 € '000	2015 € '000	2016 € '000	2015 € '000
Accrued expenses and other liabilities	1.372	1.497	1.262	1.099
Items in the course of settlement	28.512	2.529	28.512	2.529
Provision for pending litigation	60	60	60	60
Provisions for financial guarantees and commitments	285	-	285	-
Assessed fair value of derivatives	83	1	83	1
	30.312	4.087	30.202	3.689

Items in the course of settlement include an amount of €23.8m relating to an incoming fund received on 30.12.2016 which was applied to the customer's account after year end.

Derivatives consist of forward exchange rate contracts. The nominal value and assessed fair value of derivatives are as follows:

	THE GROUP		THE COMPANY	
Forward exchange rate contracts	Nominal value € '000	Assessed fair value Liability € '000	Nominal value € '000	Assessed fair value Liability € '000
At 31 December 2016	2.980	83	2.980	83
At 31 December 2015	111	1	111	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

26. DEFERRED TAXATION

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Balance 1 January	94	50	144	149
Deferred tax asset on discontinued operations	50	-	-	-
Exchange differences	-	9	-	-
Deferred tax on revaluation of premises	-	1	-	1
Debited/(credited) to the income statement	10	34	10	(6)
Balance 31 December	154	94	154	144

Deferred taxation is in respect of the following:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Surplus on revaluation of premises (net of accumulated depreciation)	251	251	251	251
Accumulated temporary differences between depreciation and capital allowances	(97)	(107)	(97)	(107)
Timing differences on interest recognition	-	(50)	-	-
	154	94	154	144

27. SHARE CAPITAL

THE COMPANY

	2016		2015	
	No. of shares	€' 000	No. of shares	€' 000
Authorised:				
Ordinary shares of €1,71 each	79.397.600	135.770	79.397.600	135.770
Class "A" shares of €1,71 each	13.000.000	22.230	13.000.000	22.230
Class "B" shares of €1,00 each	13.000.104	13.000	13.000.104	13.000
	105.397.704	171.000	105.397.704	171.000
Issued and fully paid:				
Class "A" shares				
Balance 1 January and 31 December	12.961.354	22.164	12.961.354	22.164
Class "B" shares				
Balance 1 January and 31 December	13.000.000	13.000	13.000.000	13.000
Total – 1 January and 31 December	25.961.354	35.164	25.961.354	35.164

Authorised share capital
On 5 November 2014, with a special resolution of the shareholders of the Company, the authorised share capital of the Company was increased by 5.397.704 shares. On the same date, 26.000.104 ordinary shares of nominal value €1,71 each were converted to 13.000.000 Class "A" shares of nominal value €1,71 each and 13.000.104 Class "B" of nominal value €1,00. All shares carry equal voting rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value represents the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of the Group's and of the Company's financial instruments, which are not shown on the calculated fair value, are measured at amortized cost using the effective interest method less provision for impairment. The fair value of loans and advances to customers equals the amount shown in the statement of financial position after deducting provisions for impairment.

Where possible, the Group calculates the fair value of financial assets using prices in active markets. A market is considered active if prices are available in a stable and continuous basis where real transactions between market participants are frequently carried out under normal commercial practice. The assets are valued at "bid price" and the liabilities at "ask price".

When the market for some financial instruments is not active, the Group calculates fair value using various methods of valuation. Such valuation methods may include the use of prices from recent transactions made at an arm's length, the use of the current fair value of other similar instruments, discounted cash flow methods and option pricing models. The chosen valuation method is compatible with generally accepted accounting methodologies used to determine the value of financial instruments. The data used in the valuation techniques represent market expectations and measurements of the relationship between risk-return relating to the financial instruments.

The Group and the Company use the following hierarchy for determining and disclosing fair value:

Level 1: investments valued using quoted prices in active markets.

Level 2: investments valued using models for which all inputs which have a significant effect on fair value are market observable.

Level 3: investments valued using models for which inputs which have a significant effect on fair value are not based on observable market data.

The following table presents an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

THE GROUP

	Level 1	Level 2	Level 3	Total
2016	€'000	€'000	€'000	€'000
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	114	-	114
Investments available for sale	589	-	48	637
	589	114	48	751
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	83	-	83
	-	83	-	83

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

THE GROUP (continued)

2015	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	27	-	27
Investments available for sale	583	-	184	767
	583	27	184	794
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	1	-	1
	-	1	-	1

THE COMPANY

2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	114	-	114
Investments available for sale	351	-	-	351
Subsidiary company held for sale	-	-	3.303	3.303
Investments in subsidiary companies	-	-	1.030	1.030
	351	114	4.333	4.798
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	83	-	83
	-	83	-	83

2015	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Trading derivatives				
Forward exchange rate contracts	-	72	-	72
Investments available for sale	347	-	134	481
Investments in subsidiary companies	-	-	4.497	4.497
	347	72	4.631	5.050
Financial liabilities				
Trading derivatives				
Forward exchange rate contracts	-	1	-	1
	-	1	-	1

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

NON-FINANCIAL ASSETS

The following table presents an analysis of non-financial assets recorded at fair value by level of the fair value hierarchy.

THE GROUP

	Level 1	Level 2	Level 3	Total
2016	€'000	€'000	€'000	€'000
Non-financial assets				
Premises	-	-	5.219	5.219

	Level 1	Level 2	Level 3	Total
2015	€'000	€'000	€'000	€'000
Non-financial assets				
Premises	-	-	5.104	5.104

THE COMPANY

	Level 1	Level 2	Level 3	Total
2016	€'000	€'000	€'000	€'000
Non-financial assets				
Premises	-	-	5.191	5.191

	Level 1	Level 2	Level 3	Total
2015	€'000	€'000	€'000	€'000
Non-financial assets				
Premises	-	-	4.961	4.961

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

THE GROUP

	Level 1	Level 2	Level 3	Total
2016	€'000	€'000	€'000	€'000
Financial assets				
Cash and balances with central banks	-	-	81.957	81.957
Balances with other banks	-	-	117.848	117.848
Loans and advances	-	-	270.413	270.413
Investments in debt securities	-	-	44.291	44.291
	-	-	514.509	514.509
Financial liabilities				
Client deposits	-	-	459.381	459.381
	-	-	459.381	459.381

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

THE GROUP

	Level 1	Level 2	Level 3	Total
2015	€'000	€'000	€'000	€'000
Financial assets				
Cash and balances with central banks	-	-	90.524	90.524
Balances with other banks	-	-	44.685	44.685
Loans and advances	-	-	317.042	317.042
Investments in debt securities	-	-	20.898	20.898
	-	-	473.149	473.149
Financial liabilities				
Client deposits	-	-	435.115	435.115
Borrowings	-	-	390	390
	-	-	435.505	435.505

THE COMPANY

	Level 1	Level 2	Level 3	Total
2016	€'000	€'000	€'000	€'000
Financial assets				
Cash and balances with central banks	-	-	81.957	81.957
Balances with other banks	-	-	117.693	117.693
Loans and advances	-	-	270.413	270.413
Investments in debt securities	-	-	44.291	44.291
	-	-	514.354	514.354
Financial liabilities				
Client deposits	-	-	459.381	459.381
Borrowings	-	-	-	-
	-	-	459.381	459.381

	Level 1	Level 2	Level 3	Total
2015	€'000	€'000	€'000	€'000
Financial assets				
Cash and balances with central banks	-	-	89.085	89.085
Balances with other banks	-	-	40.279	40.279
Loans and advances	-	-	310.776	310.776
Investments in debt securities	-	-	20.898	20.898
	-	-	461.038	461.038
Financial liabilities				
Client deposits	-	-	429.268	429.268
Borrowings	-	-	390	390
	-	-	429.658	429.658

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2016

29. CONTINGENT LIABILITIES AND COMMITMENTS

The Group, as a financial institution, provides services such as documentary credits and guarantees. These facilities are usually offset by corresponding obligations of third parties. Contingent liabilities and commitments are not reflected in the statement of financial position.

The nominal amounts of contingent liabilities and commitments as at 31 December are as follows:

THE GROUP AND THE COMPANY

Contingent liabilities

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Guarantees issued	19.471	22.252	19.471	22.252

Guarantees issued comprise performance and tender guarantees and other letters of guarantee given to clients and represent irrevocable obligations of the Company to pay a specific amount to the beneficiary only if the terms of the specific contractual obligation are not adhered to.

Commitments

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Documentary credits	3.863	3.198	3.863	3.198
Undrawn commitments for loans and advances granted to clients	40.090	31.275	40.090	30.188
	43.953	34.473	43.953	33.386

Documentary credits represent bank commitments for payment to third parties, on condition that the terms of the documentary credit are satisfied, including the presentation of the required documents. The repayment by the client is usually immediate.

Undrawn commitments for loans and advances represent agreements to grant loans, overdrafts or other facilities to a client that have not yet been utilised by the client.

30. CAPITAL COMMITMENTS

Commitments for contracted capital expenditure as at 31 December 2016 amount to €128 thousand (2015: €387 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

31. CASH AND CASH EQUIVALENTS

The cash and cash equivalents that are included in the statement of cash flows consist of the following balances:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Cash	1.211	1.577	1.211	1.247
Balances with central banks	79.672	88.947	79.672	87.838
Balances with other banks	115.028	44.685	114.873	40.279
	195.911	135.209	195.756	129.364

Cash and cash equivalent include cash and unrestricted balances with Central Banks and cash with other banks with maturity of less than three months.

32. FINANCIAL RISK MANAGEMENT

The Group, as a financial organisation, is exposed to risks, the most important of which are credit risk, market risk, liquidity risk and operational risk.

The Group implements internal mechanisms for continuous and systematic monitoring of the above risks in order to avoid excessive concentration of such risks. The nature of such risks and the manner of dealing with them are explained below:

Risk management framework

The Group establishes risk management policies to identify and analyse the risks faced by the Group, to set appropriate risk limits and control procedures, and to continuously monitor such risks as well as the Group's adherence to limits and controls. Risk management policies are reviewed regularly to reflect changes in market conditions, products and services rendered.

(a) Credit risk

In the ordinary course of business the Group is exposed to credit risk. Credit risk emanates from the potential inability of clients to repay their loans and other credit facilities and the non-compliance with their contractual obligations. Credit risk is monitored through various control mechanisms in order to prevent undue risk concentration and to price facilities and products on a risk adjusted basis.

The Group establishes the financing policies and sets limits on credit exposures to clients and ensures that these policies and limits, as well as the related credit sanctioning procedures and controls, are complied with in the conduct of the Group's operations. The Group takes collateral for the loans and credit facilities it grants to clients. Credit risk from connected clients' accounts is monitored on an aggregated basis. The creditworthiness of clients is assessed using credit rating and credit scoring systems.

The Group's policy relating to suspension of income on loans and advances and provisions for impairment of doubtful accounts is stated in note 3 – Significant Accounting Policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The Group set limits for the composition of the portfolio of loans and advances and monitors compliance with them. The credit risk exposure of the Group is diversified across the various sectors of the economy. The terms of loans and advances may be renegotiated due to deterioration in the client's financial position. The Group implements a restructuring policy in order to maximise collection opportunities and minimise the risk of default. The revised terms usually include extending maturity, changing timing of interest and principal payments and amendments of terms of loan covenants.

Internal Audit undertakes audits of the Group's portfolio of loans and advances and of the Group's credit processes.

The Group assesses the credit risk relating to investments in liquid funds, mainly debt securities and placements with banks, and recommendations for counterparty and country limits are submitted to the Assets and Liabilities Committee (ALCO) for approval.

Concentration of loans and advances:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
By economic sector:				
Services	125.038	143.711	125.038	141.317
Construction & real estate	85.072	96.500	85.072	95.482
Industry	40.481	47.493	40.481	46.027
Hotels & catering	30.310	31.502	30.310	30.637
Agriculture	16.295	16.512	16.295	16.449
Transport and storage	6.261	7.219	6.261	6.957
Other sectors	33.228	30.485	33.228	29.400
	336.685	373.422	336.685	366.269

Concentration by location:

Concentration by location for loans and advances is based on the client's country of domicile. The loans and advances of the Company include €3.074 thousand (2015: €2.306 thousand) loans to Russian clients. The remaining loans are located in Cyprus.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of performing loans and advances:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Carrying amount				
Grade 1-3: Low-medium risk	141.665	155.029	141.665	150.163
Grade 4-5: Special mention	20.601	18.846	20.601	18.412
	162.266	173.875	162.266	168.575
Of which loans and advances with renegotiated terms	52.995	29.404	52.995	29.144
Fair value of collateral security				
Grade 1-3: Low-medium risk	87.650	86.677	87.650	82.154
Grade 4-5: Special mention	14.242	12.507	14.242	12.073
	101.892	99.184	101.892	94.227
Of which loans and advances with renegotiated terms	45.039	21.344	45.039	21.084

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of loans and advances by category:

THE GROUP AND THE COMPANY

2016	Total loans and advances €' 000	Performing loans and advances Non-restructured €' 000	Restructured €' 000	Total €' 000	Non-performing loans and advances €' 000
Loans and advances to corporate legal entities					
Services	101.466	48.083	16.515	64.598	36.868
Construction & real estate	77.712	16.684	27.836	44.520	33.192
Industry	33.973	4.325	4.575	8.900	25.073
Hotels & catering	23.774	271	-	271	23.503
Agriculture	14.389	738	-	738	13.651
Transport and storage	5.605	5.605	-	5.605	-
Other sectors	3.793	2.726	-	2.726	1.067
	260.712	78.432	48.926	127.358	133.354
Loans and advances to retail legal entities					
Services	15.466	9.968	691	10.659	4.807
Construction & real estate	4.488	2.585	-	2.585	1.903
Industry	6.421	1.330	111	1.441	4.980
Hotels & catering	4.639	60	674	734	3.905
Agriculture	1.700	13	-	13	1.687
Transport and storage	541	239	-	239	302
Other sectors	360	-	-	-	360
	33.615	14.195	1.476	15.671	17.944
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
(a) Owner occupied	8.755	1.606	418	2.024	6.731
(b) For other purposes	-	-	-	-	-
Consumer Loans	14.474	4.429	2.137	6.566	7.908
Current accounts	5.845	3.681	-	3.681	2.164
Credit facilities to sole traders	13.284	8.007	313	8.320	4.964
	42.358	17.723	2.868	20.591	21.767
Total loans and advances	336.685	110.350	53.270	163.620	173.065
Provisions	(66.272)	(1.079)	(275)	(1.354)	(64.918)
Carrying amount	270.413	109.271	52.995	162.266	108.147

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of loans and advances by category (continued):

THE GROUP

2015	Total loans and advances €' 000	Performing loans and advances: Non-restructured €' 000	Restructured €' 000	Total €' 000	Non-performing loans and advances €' 000
Loans and advances to corporate legal entities					
Services	115.458	57.567	18.670	76.237	39.221
Construction & real estate	88.290	28.487	6.007	34.494	53.796
Industry	38.510	12.152	655	12.807	25.703
Hotels & catering	23.284	917	-	917	22.367
Agriculture	14.682	720	-	720	13.962
Transport and storage	6.180	6.180	-	6.180	-
Other sectors	-	-	-	-	-
	286.404	106.023	25.332	131.355	155.049
Loans and advances to retail legal entities					
Services	18.960	13.435	830	14.265	4.695
Construction & real estate	4.759	1.528	1.063	2.591	2.168
Industry	8.879	2.920	141	3.061	5.818
Hotels & catering	5.689	610	-	610	5.079
Agriculture	1.629	78	-	78	1.551
Transport and storage	853	305	284	589	264
Other sectors	2.265	-	-	-	2.265
	43.034	18.876	2.318	21.194	21.840
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
(a) Owner occupied	8.542	1.495	-	1.495	7.047
(b) For other purposes	121	110	-	110	11
Consumer Loans	13.806	5.557	1.778	7.335	6.471
Current accounts	5.751	3.752	-	3.752	1.999
Credit facilities to sole traders	15.764	10.688	329	11.017	- 4.747
	43.984	21.602	2.107	23.709	20.275
Total loans and advances	373.422	146.501	29.757	176.258	197.164
Provisions	(56.380)	(2.030)	(353)	(2.383)	53.997
Carrying amount	317.042	144.471	29.404	173.875	143.167

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of loans and advances by category (continued):

THE COMPANY

2015	Total loans and advances €' 000	Performing loans and advances: Non-restructured €' 000	Restructured €' 000	Total €' 000	Non-performing loans and advances €' 000
Loans and advances to corporate legal entities					
Services	115.458	57.567	18.670	76.237	39.221
Construction & real estate	88.290	28.487	6.007	34.494	53.796
Industry	38.510	12.152	655	12.807	25.703
Hotels & catering	23.284	917	-	917	22.367
Agriculture	14.682	720	-	720	13.962
Transport and storage	6.180	6.180	-	6.180	-
Other sectors	-	-	-	-	-
	286.404	106.023	25.332	131.355	155.049
Loans and advances to retail legal entities					
Services	17.033	11.551	830	12.381	4.652
Construction & real estate	4.072	1.082	822	1.904	2.168
Industry	7.413	2.092	123	2.215	5.198
Hotels & catering	5.526	447	-	447	5.079
Agriculture	1.566	15	-	15	1.551
Transport and storage	669	121	284	405	264
Other sectors	1.402	-	-	-	1.402
	37.681	15.308	2.059	17.367	20.314
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
(a) Owner occupied	8.495	1.448	-	1.448	7.047
(b) For other purposes	-	-	-	-	-
Consumer Loans	13.752	5.505	1.778	7.283	6.469
Current accounts	5.751	3.752	-	3.752	1.999
Credit facilities to sole traders	14.186	9.110	329	9.439	4.747
	42.184	19.815	2.107	21.922	20.262
Total loans and advances	366.269	141.146	29.498	170.644	195.625
Provisions	(55.493)	(1.715)	(354)	(2.069)	(53.424)
Carrying amount	310.776	139.431	29.144	168.575	142.201

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of loans and advances on the basis of origination date:

THE GROUP

2016	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	9.226	805	33	8.435	803	29	339	-	-	452	2	4
Between one and two years	9.901	7.092	3.109	6.069	3.716	2.030	109	-	-	3.723	3.376	1.079
Between two and three years	1.931	1.547	195	1.931	1.547	195	-	-	-	-	-	-
Between three and five years	44.615	23.895	3.298	30.918	14.276	2.955	6.495	6.165	44	7.202	3.454	299
Between five and seven years	126.038	62.442	19.196	118.169	61.044	19.010	438	3	1	7.431	1.395	185
Between seven and ten years	85.613	27.459	10.729	73.734	23.740	8.980	1.062	562	168	10.817	3.157	1.581
Over ten years	59.361	49.825	29.712	55.071	46.172	28.206	310	-	-	3.980	3.653	1.506
	336.685	173.065	66.272	294.327	151.298	61.405	8.753	6.730	213	33.605	15.037	4.654

2015	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	15.614	8.518	2.121	12.663	6.389	2.033	115	-	-	2.836	2.129	88
Between one and two years	2.563	1.279	119	2.113	1.279	89	151	-	11	299	-	19
Between two and three years	9.235	1.471	673	5.341	1.132	429	68	-	-	3.826	339	244
Between three and five years	102.064	48.565	5.754	84.767	38.453	5.450	6.687	6.159	64	10.610	3.953	240
Between five and seven years	127.189	60.839	17.215	122.246	59.325	16.820	600	367	6	4.343	1.147	389
Between seven and ten years	74.866	36.061	7.799	63.505	32.680	6.442	762	532	148	10.599	2.849	1.209
Over ten years	41.891	40.431	22.699	38.803	37.631	21.650	280	-	-	2.808	2.800	1.049
	373.422	197.164	56.380	329.438	176.889	52.913	8.663	7.058	229	35.321	13.217	3.238

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of loans and advances on the basis of origination date (continued):

THE COMPANY

2016	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	9.226	805	33	8.435	803	29	339	-	-	452	2	4
Between one and two years	9.901	7.092	3.109	6.069	3.716	2.030	109	-	-	3.723	3.376	1.079
Between two and three years	1.931	1.547	195	1.931	1.547	195	-	-	-	-	-	-
Between three and five years	44.615	23.895	3.298	30.918	14.276	2.955	6.495	6.165	44	7.202	3.454	299
Between five and seven years	126.038	62.442	19.196	118.169	61.044	19.010	438	3	1	7.431	1.395	185
Between seven and ten years	85.613	27.459	10.729	73.734	23.740	8.980	1.062	562	168	10.817	3.157	1.581
Over ten years	59.361	49.825	29.712	55.071	46.172	28.206	310	-	-	3.980	3.653	1.506
	336.685	173.065	66.272	294.327	151.298	61.405	8.753	6.730	213	33.605	15.037	4.654

2015	Total loans and advances			Loans and advances to legal entities			Loans and advances to private individuals - Immovable property			Loans and advances to private individuals - Other		
	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000	Total €'000	Non-performing €'000	Provision amount €'000
Within one year	14.888	8.518	2.106	12.243	6.389	2.019	115	-	-	2.530	2.129	87
Between one and two years	1.663	1.237	37	1.661	1.237	37	-	-	-	2	-	-
Between two and three years	7.568	1.469	465	4.279	1.131	425	68	-	-	3.221	338	40
Between three and five years	98.892	47.701	5.382	82.024	37.590	5.079	6.682	6.159	64	10.187	3.952	239
Between five and seven years	126.531	60.219	17.017	121.588	58.705	16.622	600	367	6	4.343	1.147	389
Between seven and ten years	74.836	36.050	7.787	63.487	32.680	6.442	750	521	136	10.599	2.849	1.209
Over ten years	41.891	40.431	22.699	38.803	37.631	21.650	280	-	-	2.807	2.800	1.049
	366.269	195.625	55.493	324.085	175.363	52.274	8.495	7.047	206	33.689	13.215	3.013

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of non-performing loans and advances on the basis of arrears:

THE GROUP **2016**	Non-performing loans and advances €' 000	Provisions €' 000	Carrying Amount €' 000	Fair value of collateral security €' 000
Arrears				
Less than three months	38.766	5.812	32.955	26.036
Between three and six months	4.517	16	4.501	3.845
Between six months and one year	9.166	1.857	7.309	5.506
Over one year	120.616	57.233	63.382	57.466
Total	173.065	64.918	108.147	92.853
Of which loans and advances with renegotiated terms	84.392	14.999	69.393	57.817

2015	Non-performing loans and advances €' 000	Provisions €' 000	Carrying Amount €' 000	Fair value of collateral security €' 000
Arrears				
Less than three months	57.436	3.891	53.545	44.948
Between three and six months	7.843	124	7.719	6.247
Between six months and one year	8.152	1.948	6.204	5.944
Over one year	123.733	48.034	75.699	68.870
Total	197.164	53.997	143.167	126.009
Of which loans and advances with renegotiated terms	99.731	8.921	90.810	79.247

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Analysis of non-performing loans and advances on the basis of arrears (continued):

THE COMPANY

2016	Non-performing loans and advances € 000	Provisions € 000	Carrying amount € 000	Fair value of collateral security € 000
Arrears				
Less than three months	38.766	5.812	32.955	26.036
Between three and six months	4.517	16	4.501	3.845
Between six months and one year	9.166	1.857	7.309	5.506
Over one year	120.616	57.233	63.382	57.466
Total	173.065	64.918	108.147	92.853
Of which loans and advances with renegotiated terms	84.392	14.999	69.393	57.817

2015	Non-performing loans and advances € 000	Provisions € 000	Carrying amount € 000	Fair value of collateral security € 000
Arrears				
Less than three months	57.436	3.891	53.545	44.948
Between three and six months	7.832	113	7.719	6.247
Between six months and one year	8.152	1.948	6.204	5.944
Over one year	122.205	47.472	74.733	67.904
Total	195.625	53.424	142.201	125.043
Of which loans and advances with renegotiated terms	98.324	8.400	89.924	78.361

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

The movement in the provisions for loans and advances to customers is shown in the tables below:

Provisions for impairment of doubtful accounts on loans and advances:

THE GROUP

2016	Provisions €' 000	Suspended income €' 000	Total €' 000
Balance 1 January	30.862	25.518	56.380
Exchange differences	186	19	205
Discontinued operations	(678)	(209)	(887)
Loans and advances written off	(48)	(576)	(624)
Income suspended for the year	-	8.526	8.526
Charge for the year	7.284	-	7.284
Release of provisions and recoveries	(3.308)	(1.304)	(4.612)
Balance 31 December	34.298	31.974	66.272

2015	Provisions €' 000	Suspended income €' 000	Total €' 000
Balance 1 January	32.487	28.388	60.875
Exchange differences	(51)	(19)	(70)
Loans and advances written off	(5.646)	(11.713)	(17.359)
Income suspended for the year	-	9.076	9.076
Charge for the year	6.556	-	6.556
Release of provisions and recoveries	(2.484)	(214)	(2.698)
Balance 31 December	30.862	25.518	56.380

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Provisions for impairment of doubtful accounts on loans and advances (continued):

THE COMPANY

2016	Provisions €' 000	Suspended income €' 000	Total €' 000
Balance 1 January	30.184	25.309	55.493
Exchange differences	186	19	205
Loans and advances written off	(48)	(576)	(624)
Income suspended for the year	-	8.526	8.526
Charge for the year	7.284	-	7.284
Release of provisions and recoveries	(3.308)	(1.304)	(4.612)
Balance 31 December	34.298	31.974	66.272

2015	Provisions €' 000	Suspended income €' 000	Total €' 000
Balance 1 January	32.184	28.255	60.439
Exchange differences	2	-	2
Loans and advances written off	(5.646)	(11.713)	(17.359)
Income suspended for the year	-	8.981	8.981
Charge for the year	6.127	-	6.127
Release of provisions and recoveries	(2.483)	(214)	(2.697)
Balance 31 December	30.184	25.309	55.493

Credit quality of Group assets exposed to credit risk other than loans and advances to customers - analysis by rating agency designation

Balances with central banks and other banks

Balances with central banks and other banks are analysed by Moody's rating as follows:

	THE GROUP		THE COMPANY	
	2016 €'000	2015 €'000	2016 €'000	2015 €'000
A1 – A3	69.538	5.437	69.538	5.437
Aaa – Aa3	14.511	230	14.511	230
B1 – B3	80.746	87.838	80.746	87.838
Ba1 – Ba3	17	1.123	17	14
Baa1 – Baa3	12.669	25.787	12.669	25.787
Caa – C	20.834	50	20.781	50
Unrated	279	13.167	177	8.761
	198.594	133.632	198.439	128.117

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk

Market risk is the risk of loss which emanates from adverse changes in the current prices of listed investments, bonds and other securities or in the assessed fair value of unlisted investments and from adverse fluctuations in interest rates and foreign exchange rates.

(i) Risk from changes in the value of equity investments

The Group establishes the policies and exposure limits for its equity financing activities so that equity financing is provided where the assessed risk is considered to be within acceptable boundaries in accordance with the investment management policies and within the limits set. Equity investments are closely monitored on a continuous basis. The risk is diversified to various companies and sectors of the economy as shown in the table below, and in certain cases the Group has pre-agreed exit arrangements from the investment. The Group's policy relating to revaluation of equity investments at their assessed fair value, as well as the recognition of permanent diminution in value, is stated in note 3 - Significant Accounting Policies.

Listed and unlisted equity investments are stated in the financial statements at their assessed fair value which takes into account possible losses that may arise in relation to specific investments. A change in the value of equity investments classified as "available-for-sale" affects the equity of the Group.

The table below indicates how the equity of the Group will be affected from a change in the price of the equity investments held, as a result of reasonably possible changes in the relevant stock exchange indices or change in the book value of unlisted equity investments.

THE GROUP

Equity Investments	Change in Index or Book Value %	Effect on equity 2016 €'000	Change in Index or Book Value %	Effect on equity 2015 €'000
Listed	+20	118	+20	117
Unlisted	+25	12	+25	46
Listed	-20	(118)	-20	(117)
Unlisted	-25	(12)	-25	(46)

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(i) Risk from changes in the value of equity investments (continued)

THE COMPANY

	Change in Index or Book Value	Effect on equity 2016	Change in Index or Book Value	Effect on equity 2015
Equity Investments	%	€'000	%	€'000
Listed	+20	70	+20	69
Unlisted	+25	-	+25	34
Listed	-20	(70)	-20	(69)
Unlisted	-25	-	-25	(34)

Concentration of investments:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
By economic sector:				
Equity investments available for sale				
Services	637	767	351	481
	637	767	351	481

(ii) Interest rate risk

Interest rate risk arises as a result of changes in the rates of interest and re-pricing timing mismatches on assets and liabilities. The Group closely monitors fluctuations in interest rates on a continuous basis and the relationship of assets and liabilities, which are subject to interest rates fluctuations, and takes measures to contain in acceptable levels the effects of these changes on the Group's profitability.

Interest rate risk is measured using interest rate sensitivity gap analysis, where the annual impact of any change in interest rates on profit is calculated by multiplying the net asset or liability position re-pricing in each time band with the assumed change in interest rates.

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

The interest rate sensitivity gap analysis indicating the effect on the Group's and on the Company's profit of changes in interest rates is shown in the tables below:

THE GROUP 2016	Up to one month € '000	Between one and three months € '000	Between three months and one year € '000	Between one and five years € '000	Over five years € '000	Non-interest bearing € '000	Total € '000
ASSETS							
Cash and balances with central banks	80.746	-	-	-	-	1.211	81.957
Balances with other banks	117.848	-	-	-	-	-	117.848
Loans and advances	86.440	14.425	85.891	-	-	83.657	270.413
Equity investments	-	-	-	-	-	637	637
Debt securities	4.211	8.976	-	12.456	18.648	-	44.291
Premises, equipment & intangible assets	-	-	-	-	-	6.603	6.603
Assets of subsidiary held for sale	11.132					1.666	12.798
Other assets	-	-	-	-	-	3.649	3.649
Total assets	300.377	23.401	85.891	12.456	18.648	97.423	538.196
LIABILITIES & EQUITY							
Clients deposits	39.235	62.075	134.627	18.550	-	204.894	459.381
Liabilities of subsidiary held for sale	445	1.711	2.777	456	-	1.233	6.622
Other liabilities	-	-	-	-	-	30.466	30.466
Non-controlling interest	-	-	-	-	-	186	186
Share capital and reserves	-	-	-	-	-	41.541	41.541
Total liabilities & equity	39.680	63.786	137.404	19.006	-	278.320	538.196
Net Position	260.697	(40.385)	(51.513)	(6.550)	18.648	(180.897)	-
Change in interest rates -1% - effect on profit	(2.607)	404	515	66	(186)	-	(1.808)
Change in interest rates +1% - effect on profit	2.607	(404)	(515)	(66)	186	-	1.808

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

THE GROUP **2015**	Up to one month € '000	Between one and three months € '000	Between three months and one year € '000	Between one and five years € '000	Over five years € '000	Non-interest bearing € '000	Total € '000
ASSETS							
Cash and balances with central banks	87.838	-	-	-	-	2.686	90.524
Balances with other banks	40.779	-	-	-	-	3.906	44.685
Loans and advances	124.786	14.408	36.830	-	-	141.018	317.042
Equity investments	-	-	-	-	-	767	767
Debt securities	258	999	6.058	2.141	11.442	-	20.898
Premises, equipment & intangible assets	-	-	-	-	-	6.435	6.435
Other assets	-	-	-	-	-	2.365	2.365
Total assets	253.661	15.407	42.888	2.141	11.442	157.177	482.716
LIABILITIES & EQUITY							
Clients deposits	33.273	54.241	167.863	27.491	-	152.247	435.115
Borrowings	390	-	-	-	-	-	390
Other liabilities	-	-	-	-	-	4.181	4.181
Non-controlling interest	-	-	-	-	-	203	203
Share capital and reserves	-	-	-	-	-	42.827	42.827
Total liabilities & equity	33.663	54.241	167.863	27.491	-	199.458	482.716
Net Position	219.998	(38.834)	(124.975)	(25.350)	11.442	(42.281)	-
Change in interest rates -1% - effect on profit	(2.200)	388	1.250	254	(114)	-	(422)
Change in interest rates +1% - effect on profit	2.200	(388)	(1.250)	(254)	114	-	422

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

THE COMPANY 2016	Up to one month € '000	Between one and three months € '000	Between three months and one year € '000	Between one and five years € '000	Over five years € '000	Non-interest bearing € '000	Total € '000
ASSETS							
Cash and balances with central banks	80.746	-	-	-	-	1.211	81.957
Balances with other banks	117.693	-	-	-	-	-	117.693
Loans and advances	86.440	14.425	85.898	-	-	83.650	270.413
Equity investments	-	-	-	-	-	351	351
Debt securities	4.211	8.976	-	12.456	18.648	-	44.291
Subsidiary company held for sale	-	20	2.853	-	-	3.303	6.176
Subsidiary companies	-			-	-	812	812
Premises, equipment & intangible assets	-	-	-	-	-	6.566	6.566
Other assets	-	-	-	-	-	3.019	3.019
Total assets	289.090	23.421	88.751	12.456	18.648	98.912	531.278
LIABILITIES & EQUITY							
Clients deposits	39.235	62.075	134.627	18.550	-	204.894	459.381
Borrowings	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	30.356	30.356
Share capital and reserves	-	-	-	-	-	41.541	41.541
Total liabilities & equity	39.235	62.075	134.627	18.550	-	276.791	531.278
Net Position	249.855	(38.654)	(45.876)	(6.094)	18.648	(177.879)	-
Change in interest rates -1% - effect on profit	(2.499)	387	459	61	(186)	-	(1.778)
Change in interest rates +1% - effect on profit	2.499	(387)	(459)	(61)	186	-	1.778

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

THE COMPANY

2015

	Up to one month € '000	Between one and three months € '000	Between three months and one year € '000	Between one and five years € '000	Over five years € '000	Non-interest bearing € '000	Total € '000
ASSETS							
Cash and balances with central banks	87.838	-	-	-	-	1.247	89.085
Balances with other banks	40.279	-	-	-	-	-	40.279
Loans and advances	116.953	14.408	36.830	-	-	142.585	310.776
Equity investments	-	-	-	-	-	481	481
Debt securities	258	999	6.058	2.141	11.442	-	20.898
Subsidiary companies	230	-	2.761	-	-	4.184	7.175
Property, equipment & intangible assets	-	-	-	-	-	6.264	6.264
Other assets	-	-	-	-	-	1.448	1.448
Total assets	245.558	15.407	45.649	2.141	11.442	156.209	476.406
LIABILITIES & EQUITY							
Client deposits	30.651	52.200	167.104	27.066	-	152.247	429.268
Borrowings	390	-	-	-	-	-	390
Other liabilities	-	-	-	-	-	3.833	3.833
Share capital and reserves	-	-	-	-	-	42.915	42.915
Total liabilities & equity	31.041	52.200	167.104	27.066	-	198.995	476.406
Net Position	214.517	(36.793)	(121.455)	(24.925)	11.442	(42.786)	-
Change in interest rates -1% - effect on profit	(2.145)	368	1.215	249	(114)	-	(427)
Change in interest rates +1% - effect on profit	2.145	(368)	(1.215)	(249)	114	-	427

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(b) Market risk (continued)

(iii) Currency risk

Currency risk from adverse movements in the rates of exchange arises when there is a net currency position (asset or liability) in one or more currencies. Net currency positions are monitored on a continuous basis and the Group takes such measures so that this risk is contained within acceptable boundaries. The foreign exchange position limits prescribed by the Central Bank of Cyprus are adhered to.

The foreign exchange risk resulting from the net foreign exchange positions of the Group and of the Company at 31 December are set out below. The sensitivity analysis assumes reasonable possible changes in exchange rates of major currencies against the Euro, based on past rate fluctuations.

THE GROUP

		2016			2015	
Currency	Net open position €' 000	Change in exchange rates %	Effect on profits €' 000	Net open position €' 000	Change in exchange rates %	Effect on profits €' 000
US Dollar	91	+10,0	9	177	+10,0	18
British Pound	2	+10,0	-	(18)	+10,0	(2)
Russian Rouble	(141)	+30,0	(42)	(325)	+30,0	(98)
Other currencies	51	+10,0	5	33	+10,0	3
US Dollar	91	-10,0	(9)	177	-10,0	(18)
British Pound	2	-10,0	-	(18)	-10,0	2
Russian Rouble	(141)	-30,0	42	(325)	-30,0	98
Other currencies	51	-10,0	(5)	33	-10,0	(3)

THE COMPANY

		2016			2015	
Currency	Net open position €' 000	Change in exchange rates %	Effect on profits €' 000	Net open position €' 000	Change in exchange rates %	Effect on profits €' 000
US Dollar	84	+10,0	8	112	+10,0	11
British Pound	2	+10,0	-	(18)	+10,0	(2)
Russian Rouble	(129)	+30,0	(39)	(248)	+30,0	(74)
Other currencies	51	+10,0	5	33	+10,0	3
US Dollar	84	-10,0	(8)	112	-10,0	(11)
British Pound	2	-10,0	-	(18)	-10,0	2
Russian Rouble	(129)	-30,0	39	(248)	-30,0	74
Other currencies	51	-10,0	(5)	33	-10,0	(3)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Liquidity risk refers to possible losses that may be incurred due to a potential inability of the Group to meet fully or promptly its cash flow obligations. This risk includes the possibility that the Group may have to raise funding at higher cost.

The Group's banking business requires a steady flow of funds both to replace existing deposits as they mature and to satisfy customer requests for additional borrowings. Undrawn borrowing facilities are also taken into consideration in managing the liquidity position.

Treasury manages liquidity risk on a continuous basis by closely monitoring the relationship between cash flow obligations and liquid assets and timely action is being taken to secure financial resources to meet the Group's funding requirements. The Group maintains at all times adequate amounts of cash and other highly liquid assets.

Liquidity ratios

In managing liquidity risk for the Euro, the Company calculates and monitors, among other ratios, the liquid assets ratio required by the Central Bank Directive on Prudential Liquidity in Euro. The ratio is calculated as the amount of liquid assets to total deposits and other liabilities falling due within twelve months. Liquid assets are defined as cash, interbank deposits maturing within thirty days and eligible debt and equity securities at haircuts prescribed by regulatory authorities. Total deposits comprise all customer deposits irrespective of maturity and other liabilities include all non-customer deposits/ liabilities falling due in the next twelve months. According to the Directive, the liquid assets ratio of the Company should always equal or exceed 20%.

The liquid assets ratio for the Euro was as follows:

THE GROUP AND THE COMPANY

	2016	2015
	%	%
At 31 December	37,77	28,07
Average for the year	36,13	19,41
Maximum percentage for the year	38,69	28,07
Minimum percentage for the year	30,65	13,56

For foreign currency deposits, according to the relevant Directive of the Central Bank of Cyprus on Prudential Liquidity in foreign currency, the Company needs to maintain at least 70% of its total foreign currency deposits in highly liquid assets.

The liquid assets ratio in foreign currencies was as follows:

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	%	%	%	%
At 31 December	83,70	72,47	83,01	70,19
Average for the year	79,84	70,14	79,42	70,39
Maximum percentage for the year	83,70	72,47	83,73	70,70
Minimum percentage for the year	70,38	70,00	70,70	70,16

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

Liquidity Coverage Ratio

The CRR sets forth the guidelines for calculating liquidity measures such as the liquidity Coverage Requirement ratio (LCR). LCR is calculated as the sum of high quality liquid assets over the expected net liquidity outflows during the next 30 days, as these net outflows are specified under a stress test scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Group as at 31 December 2016 was 317% (31.12.2015: 388%) and the Company 312% (31.12.2015: 334%). The minimum required LCR ratio as at 31 December 2016 was 70%.

An analysis of financial liabilities as at 31st December according to their residual contractual maturities is as follows:

THE GROUP 2016	On demand and up to one month	Between one and three months	Between three months and one year	Over one year	Carrying amount
LIABILITIES	€' 000	€' 000	€' 000	€' 000	€' 000
Client deposits	245.947	83.202	114.388	15.844	459.381
Liabilities of subsidiary held for sale	1.631	1.750	2.801	440	6.622
Other liabilities	27.365	990	379	1.649	30.383
Derivatives – assessed fair value	-	83	-	-	83
Guarantees issued	2.632	3.279	10.877	2.683	19.471
Undrawn facilities	6.014	4.010	4.000	26.066	40.090
Total liabilities	283.589	93.314	132.445	46.682	556.030

THE GROUP 2015	On demand and up to one month	Between one and three months	Between three months and one year	Over one year	Carrying amount
LIABILITIES	€' 000	€' 000	€' 000	€' 000	€' 000
Client deposits	188.312	74.950	151.086	20.767	435.115
Borrowings	390	-	-	-	390
Other liabilities	3.562	69	26	523	4.180
Derivatives – assessed fair value	1	-	-	-	1
Guarantees issued	1.096	2.908	11.043	7.205	22.252
Undrawn facilities	4.691	-	-	26.584	31.275
Total liabilities	198.052	77.927	162.155	55.079	493.213

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk (continued)

THE COMPANY 2016	On demand and up to one month	Between one and three months	Between three months and one year	Over one year	Carrying amount
LIABILITIES	€' 000	€' 000	€' 000	€' 000	€' 000
Client deposits	245.947	83.202	114.388	15.844	459.381
Other liabilities	27.365	880	379	1.649	30.273
Derivatives – assessed fair value	-	83	-	-	83
Guarantees issued	2.632	3.279	10.877	2.683	19.471
Undrawn facilities	6.014	4.010	4.000	26.066	40.090
Total liabilities	281.958	91.454	129.644	46.242	549.298

THE COMPANY 2015	On demand and up to one month	Between one and three months	Between three months and one year	Over one year	Carrying amount
LIABILITIES	€' 000	€' 000	€' 000	€' 000	€' 000
Client deposits	187.207	74.949	146.964	20.148	429.268
Borrowings	390	-	-	-	390
Other liabilities	3.323	-	-	509	3.832
Derivatives – assessed fair value	1	-	-	-	1
Guarantees issued	1.096	2.908	11.043	7.205	22.252
Undrawn facilities	4.528	-	-	25.660	30.188
Total liabilities	196.545	77.857	158.007	53.522	485.931

(d) Operational risk

Operational risk is the risk of loss arising from a variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from other external events. It is inherent in every business organisation and covers a wide range of issues.

The Group establishes policies and procedures for managing operational risk and ensures that these are adhered to in the conduct of the Group's operations. Operational risk is managed by establishing internal processes and controls involving:

- Segregation of duties, including independent authorisation of transactions, the reconciliation and monitoring of transactions, documentation of controls and procedures
- Compliance with regulatory and other legal requirements
- Development of business continuity plans and disaster recovery plans
- Personnel training
- Risk mitigation by taking out insurance cover

Internal Audit has the responsibility of reviewing periodically the above procedures and controls.

Business Continuity Plans and Disaster Recovery Plans have been developed by the Group and are regularly updated to ensure continuity and timely recovery of operations after a potentially catastrophic event.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group and for the Company. The individual capital requirements of the subsidiary company JSC cdbbank are set and monitored by the Central Bank of the Russian Federation. The capital requirements of the subsidiary companies Global Capital Ltd are set and monitored by the Cyprus Securities and Exchange Commission. All Group subsidiaries adhere to the mandatory capital requirements of the respective supervisory authorities.

The CBC requires the Group to maintain a prescribed capital adequacy ratio, which is the ratio of total eligible capital to total risk-weighted assets, in accordance with its Directive for the calculation of the capital requirements and large exposures of banks.

The minimum Pillar I total capital requirement is 8,0% which should be met by at least 6,0% Tier 1 capital of which 4,5% minimum Common Equity Tier 1 (CET 1) capital.

The Group is also subject to additional capital requirements for risks which are not covered under Pillar I capital requirements. In February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, the Central Bank of Cyprus determined the additional capital requirements to be met by CET 1 capital to be 5,2% of the Group's risk weighted assets.

In addition to the total SREP capital requirement, the Group is also required to maintain a capital conservation buffer, which in accordance with the amendments to the Banking Law in February 2017, has increased to 1,25% as from 1 January 2017 (from 0,625% as of 31 December 2016).

The Group's total capital adequacy ratio as at 31 December 2016 amounted to 11,45%. The Group's total regulatory capital adequacy ratio as at 31 December 2016 amounted to 8.625% comprising (a) the minimum own funds requirement of 8% in accordance with Article 92(1) of the Regulation (EU) No 575/2013 and section 22B(1) of the Banking Law and (b) the required by the Banking Law combined buffer (capital conservation buffer). The Management Body and Management are taking measures to increase the capital base, consisting of both internal measures as well as of additional capital contributions from shareholders and others, so as to maintain the total SREP capital requirement and the conservation buffer.

The Group's regulatory capital is analysed as follows:

Common Equity Tier I Capital :	It includes share capital, share premium, retained earnings, current year's profits, revaluation and other reserves. Intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from Common Equity Tier I Capital subject to transitional provisions.
Tier II Capital :	It includes subordinated loan capital. Transitional adjustments relating to the premises revaluation reserve are added to Tier II Capital.

The Group and the Company adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk.

The Group's and the Company's regulatory capital position as at 31 December, calculated in accordance with the Directive of the Central Bank of Cyprus is as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. FINANCIAL RISK MANAGEMENT (continued)

(e) Capital management (continued)

	THE GROUP		THE COMPANY	
	2016	2015	2016	2015
	€' 000	€' 000	€' 000	€' 000
Regulatory capital				
Tier I capital - Original own funds	41.025	42.333	40.924	42.278
Tier II capital - Additional own funds	-	-	-	-
Total regulatory capital	41.025	42.333	40.924	42.278
Risk weighted assets				
Credit risk	328.887	329.432	329.086	330.750
Market risk	2.200	-	2.175	-
Operational risk	26.925	30.088	24.513	26.188
Credit value adjustment	138	-	138	-
Total risk weighted assets	358.150	359.520	355.912	356.938
Core Tier I / Tier I ratio	**11,45%**	**11,77%**	**11,50%**	**11,84%**
Tier II ratio	-	-	-	-
Total capital adequacy ratio	**11,45%**	**11,77%**	**11,50%**	**11,84%**

(f) Leverage Ratio Requirements

The Basel III framework introduced a simple, transparent, non-risk based Leverage Ratio to act as a credible supplementary measure to the risk-based capital requirements.

The Leverage Ratio is defined as the capital measure (i.e. the Group's Tier 1 capital) divided by the exposure measure as this is defined in the European Commission's Regulation (EU) 2015/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the Leverage Ratio. It is noted that the final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 minimum capital requirement on 1 January 2018. The Group calculates its Leverage Ratio as at the end of each quarter.

The Leverage Ratio of the Group as at 31 December 2016 was 7.27% (31.12.2015: 8.30%) and the Company 7.34% (31.12.2015: 8.39%).

33. LITIGATION

On 31 December 2016, there were pending litigation cases against the Group in connection with its activities, the outcome of which is not expected to have a material effect on the Group's financial position or operations.

One other case was pending against the Company in connection with its relationship with two of its shareholders. The case is still at an early stage and it is extremely unlikely (if not impossible) that it should be heard during the current calendar year. As a result, no provision has been made in the financial statements in relation to any of these cases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

34. SHAREHOLDERS

	Share Structure Before the transfer	Share Structure After the transfer
Path Holdings Ltd	9.81%	17.70%
Leon Investment S.A.	9.81%	17.70%
Constantinos Shiacolas	7.85%	14.16%
Delphis Investments Ltd	7.05%	12.72%
Leonidas Ioannou	7.05%	12.72%
Intergaz Ltd	4.91%	8.85%
CLR Investment Fund Public Ltd	2.35%	2.35%
Emerging Financial Partners Ltd	0.96%	0.96%
Antonis Yerolemou	0.07%	0.12%
Panikos Katsouris	0.07%	0.12%
Loramina Trading Ltd	45.06%	11.34%
Dayarona Trading Ltd	5.01%	1.26%

The Company has notice of an agreement between its shareholders pursuant to which the ownership of 9.728.869 shares belonging to shareholders Loramina Trading Ltd and Dayarona Trading Ltd will be transferred to other existing shareholders.

The transferees have applied for the issue of the necessary permits regarding these transfers from the supervisory bodies and their application is being processed. It should be noted, that the two transferors are challenging the said agreement through judicial proceedings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS

THE GROUP AND THE COMPANY

Members of the Management Body and connected persons

Connected persons include spouses, minor children and companies in which members of the Management Body, hold directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

	2016	2015
	€' 000	€' 000
Loans and advances	271	266
Deposits	521	70

Additionally, as at 31 December 2016, there were contingent liabilities and commitments in respect of Members of the Management Body and their connected persons in the form of unused limits amounting to €74 thousand in 2016 (2015: €95 thousand).

Fees and emoluments of members of the Management Body and key management personnel

	2016	2015
Director emoluments	€' 000	€' 000
Executives		
Salaries	223	255
Employers contributions for social insurance, etc	21	28
Retirement benefits	21	23
Amounts paid on termination	180	-
	445	306
Non-executives		
Fees	145	101
	590	407
Key management personnel emoluments		
Salaries	356	45
Employers contributions for social insurance, etc	37	4
Retirement benefits	33	4
Amounts paid on termination	344	-
	770	53
Total	1.360	460

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

35. RELATED PARTY TRANSACTIONS (continued)

THE GROUP AND THE COMPANY

Key management personnel emoluments include the remuneration of the Acting Chief Executive Officer from the date of his appointment, the General Manager Administration and the remuneration of the Deputy Chief Executive Officer and General Manager Business up to the date of termination.

Key management personnel who are not directors and their connected persons

Connected persons include spouses, minor children and companies in which the key management personnel who were not Directors hold, directly or indirectly, at least 20% of the voting rights in a general meeting, or act as directors of the entities concerned or have guaranteed credit exposures of such entities.

	2016	2015
	€' 000	€' 000
Loans and advances	238	-
Deposits	323	104

Additionally, as at 31 December 2016, there were contingent liabilities and commitments in respect of key management personnel and their connected persons in the form of unused limits amounting to €40 thousand in 2016.

All transactions with members of the Management Body and their connected persons are made on normal business terms. Transactions with key management personnel are made according to the terms applicable to the rest of the personnel of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

36. OPERATING ENVIRONMENT

According to the Cyprus Statistical Service, economic growth for 2016 was estimated at 2.8% compared to 2015. Even though the financial services sector showed a negative growth, there has been an increase in the Gross Domestic Product which is mainly attributed to the tourism, construction, manufacturing and the wholesale and retail trade sectors. The economic growth was mainly driven by the increase in private consumption, which benefited from the reduction in unemployment and the consequent increase in disposable income. The growth was also supported by the slower pace of reductions in public spending and the increase in investments. The international credit rating agencies have upgraded the rating of Cyprus. In particular, in March 2017 S&P Global Rating upgraded the rating of Cyprus from BB to BB+.

The banking sector seems to regain its confidence lost in the period 2013-2015, when it lost a significant part of its customer deposits. In 2016 deposits grew by 6,2% compared to 2015 despite low deposit rates. The confidence towards the banking system is the result of positive economic performance, and its upgrading by international rating agencies. Moody's rating agency predicts growth for the Cyprus Economy of 2,7% for 2017 and 2,5% for 2018.

The challenges of the financial sector are mainly related to the high level of non-performing exposures (NPEs) and the limited availability of credit. The high level of NPEs impacts on the banks' profitability and financial position through non-recognition of income and higher provisions. At the same time the real estate market which is a significant driver of the provisions for impairment of customer loans and advances continues to be subdued and places further pressure on profitability. The Group focuses on restructuring loans in a sustainable manner and on mutually beneficial terms.

The Group has managed to navigate successfully through the banking crisis, maintaining its reputation and focusing on its market positioning. The Group ensures its smooth operational efficiency by maintaining healthy liquidity to allow it to exploit healthy credit opportunities while focusing on growth.

The Directors and Management of the Group are not in a position to assess future developments which could have an impact on the Cyprus Economy and, as a result, on the future financial performance, cash flows and financial position of the Group. The Directors and Management of the Group take all necessary measures and actions possible to maintain the viability of the Group and strengthen and maintain an adequate capital base in order to comply with minimum supervisory capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. EVENTS AFTER THE REPORTING PERIOD

Sale and purchase agreement of shares in the Joint Stock Company cdbbank

On 22 March 2017 an agreement was signed for the sale of both of the entire share capital of JSC cdbbank and for the assignment of the Company's subordinated loan to its subsidiary of US$3m. The total consideration for these transactions is €6.150 thousand and they will become effective once the Central Bank of Russia approves the transfer of the shares to the new shareholders. An application for such approval has been filed.

There were no other material events after the reporting period, which affect the consolidated and the separate financial statements as at 31 December 2016.

The consolidated and the separate financial statements of the Company were approved by the Management Body of the Company on 23 May 2017.

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