The Cyprus Development Bank Group

Annual Report and Financial Statements

For the year ended 31 December 2018

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DIRECTORS AND ADVISERS

Management Body

George Loizou, Acting Chairman, Non-Executive (elected on 1.12.2018)

Neoclis Nicolaou, Vice Chairman, Non-Executive

Andreas Loizou, Non-Executive

Menelaos Shiacolas, Non-Executive

George Pavlides, Non-Executive

Costas Argyrides, Executive

Wahid Chammas, Non-Executive (appointed 26.6.2018)

Costas Poullis, Non-Executive (appointed 26.2.2019)

Avgoustinos Papathomas , Non-Executive (appointed 7.5.2019)

Christodoulos Plastiras, Non-Executive (appointed 7.5.2019)

Chief Executive Officer

Costas Argyrides

Secretary

Maria Agathokleous (appointed 8.2.2019)

Evi Protopapa (resigned 8.2.2019)

Legal Advisers

Chryssafinis & Polyviou

Independent Auditors

KPMG Limited

14 Esperidon Street

1087 Nicosia

Registered office

50, Arc. Makarios III Avenue

Alpha House

1065 Nicosia

MANAGEMENT REPORT

The Management Body of The Cyprus Development Bank Public Company Limited (the "Bank") presents to the members its annual report together with the audited financial statements of the Bank and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activities of the Bank and its subsidiary companies, which remained unchanged from last year, are the provision of banking and financial services.

All subsidiary companies are set out in notes 22 and 23 to the financial statements.

FINANCIAL RESULTS

The results of the Group are set out in the consolidated income statement on page 32.

The Group, after provisions for impairment has reported a pre-tax loss from continuing operations of €1,3 million for 2018 compared to a loss of €2,3 million in 2017. After losses of €0,2 million from discontinued operations, relating to the Russian subsidiary JSC cdbbank, and taxes of €0,7 million, the Group reported after tax losses of €2,2 million for 2018 compared to losses of €4,1 million reported in 2017.

The increase of net interest income compared to last year is attributed to a change in the Bank's policy regarding interest recognition implemented during 2018 so as to be in line with IFRS 9. This change in methodology does not affect in any way the overall profitability of the Bank or the Group because it is only a change in presentation which reduces interest suspension and increases the impairment charge. When adjusted like for like, net interest income of €9,9 million for 2018 is 5% below 2017 mainly because of the lower loan yields and the contraction of the loan portfolio.

Net fee income for 2018 amounts to €2,9m, showing an increase of 9% compared to 2017 (€2,6m).

Group staff costs of €6,8 million for 2018 increased by 12% compared to €6,0 million in 2017, mainly due to the effect of (a) annual increments estimated at c 5%; (b) termination benefits making up 4% of the increase and (c) new recruitments making up 3% of the increase.

Other operating expenses for 2018 amounted to €3,4 million, 18% lower compared to €4,2 million for 2017. The decrease is mainly attributed to the increased costs of 2017 as a result of the administrative fine of €0,6 million imposed by the Central Bank of Cyprus.

Provisions for impairments during 2018 amounted to €4,4 million, 4% below the provision charge of €4,6 million reported in 2017.

The Group's gross loan portfolio as at 31 December 2018 amounted to €313 million decreasing slightly by 2% compared to 31 December 2017. On a net basis the loan portfolio amounted to €246 million on 31 December 2018, a decrease of 4% compared to 31 December 2017.

Customer deposits increased by 7% to €516 million at 31 December 2018 compared to €481 million at 31 December 2017. Customer deposits accounted for 88% of total assets at 31 December 2018 and Loan to Deposit ratio stood at 48% at 31 December 2018.

MANAGEMENT REPORT (continued)

FINANCIAL RESULTS (continued)

During the year the Bank continued its efforts towards improving the quality of the loan portfolio. At 31 December 2018 NPEs amounted to €125 million a decrease of 24% compared to €165 million at 31 December 2017. The NPE ratio stood at 40% at 31 December 2018 a decrease of 12 percentage points from 52% at 31 December 2017. The NPEs provision coverage ratio stood at 53% at 31 December 2018, a considerable increase compared to 38% at 31 December 2017.

The Bank remains committed in pursuing the further decrease of NPEs, by deploying the entire toolkit available under current legislation, namely restructurings, amicable settlements, legal measures, debt-for-asset swaps and foreclosures. At the same time the Group remains focused to growth through new lending and maintaining and strengthening client relationships.

GOING CONCERN

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The conditions that existed during 2018, the developments up to the date of approval of these financial statements and Management's projections have been considered by the Directors in the going concern assessment and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

The Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the financial performance of the Group and the risks emanating from the environment in which the Group operates and consider that the going concern principle is appropriate. The going concern assessment is presented in note 2.1 to the financial statements.

DIVIDEND

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 Bank's ALCO committee, the Management Body's Risk Management Committee and the Management Body. Description of the Group's risk management framework is set out in note 38 to the financial statements.

SHARE CAPITAL

On 12 March 2019 an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. As a result of the share capital increase the Bank's capital position is now strengthened. The share capital composition after the increase is set out in note 33 to the financial statements.

MANAGEMENT REPORT (continued)

SHAREHOLDERS

Following clearances obtained from the authorities, namely the European Central Bank and the Cyprus Securities and Exchange Commission, as well as the rejection on 30 April 2018 by the District Court of Nicosia, of the application of shareholders Loramina Trading Ltd and Dayarona Trading Ltd for an interim order restraining the transfer of their 9.728.869 Class B shares to other shareholders, the Bank proceeded with the registration of the transfer of 8.755.982 Class B shares of Loramina Trading Ltd and 972.887 Class B shares of Dayarona Trading Ltd to the existing shareholders Path Holdings Ltd, Leon Investment S.A., Constantinos Shiacolas, Delphis Investments Ltd, Leonidas Ioannou, Intergaz Ltd, Panikos Katsouris and Antonios Yerolemou.

The shareholding structure as at 31 December 2018 is presented in note 40 to the financial statements.

CAPITAL MANAGEMENT

For 2018 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 11,575% (12,20% from 1 January 2019) and an overall capital adequacy ratio of 15,075% (15,70% from 1 January 2019).

The Group's CET 1 ratio stood at 12,34% at 31 December 2018 and was within the minimum requirement whereas the overall capital ratio at 31 December 2018 stood at 13,95% and was below the minimum total capital requirement of 15,075% for 2018. The Directors and Management are closely monitoring and managing the capital of the Group and take actions to optimize capital usage and bring ratios above minimum requirements. To this end, Management developed a Financial and Capital Plan (the 'Plan'), which was approved by the Management Body in March 2019. The main objectives of the Plan were to enhance the Group's capital adequacy through a rights issue and a number of management actions to ensure that it maintains sufficient resources and capital to support its current activities. In line with the Plan, the Group is expected to continue its de-risking strategy and efforts to successfully resolve the residual NPEs. The IFRS 9 impact on a fully phased-in basis is also considered within the Plan.

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Currently the Group is ahead of its Capital Plan with better than anticipated financial performance which may be attributed to an improved macroeconomic and legal environment regarding NPEs which facilitates the resolution of legacy assets as well as the lower than anticipated losses from discontinued operations. The combined effect of the 2019 capital increase and the profitability of the Group to this date, have contributed towards the improvement of the Group's overall capital adequacy ratio to c. 16,7%.

Details on capital management are shown in note 38.5 to the financial statements.

STRATEGY AND PRIORITIES

The Group has set its strategic priorities for 2019 which focus on increasing its operating profitability through the prudent increase of its loan portfolio, the strengthening and enhancement of its investment banking operations and the diversification of income streams by optimising its fee income

MANAGEMENT REPORT (continued)

STRATEGY AND PRIORITIES (continued)

from related activities. At the same time the reduction of NPEs and improvement of the Bank's loan portfolio through the implementation of sustainable restructuring solutions remains a top priority for the Group. The Group will also focus on the provision of quality assets management and investment and advisory services, through its subsidiary company Global Capital Securities and Financial Services Ltd.

The Group continues to manage its deposit base prudently in order to maintain healthy liquidity ratios and at the same time manage the cost of funding taking advantage of the improved macro-economic conditions and the increased customer confidence towards the banking sector.

The Group places emphasis on ensuring the effectiveness of its risk management and compliance frameworks 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 continues to invest in upgrading its technologies and systems that support the implementation of its business strategy and its digital transformation objectives. The upgrade of the core banking system, the introduction of debit and credit cards as well as enhancement of digital channels and compliance with PSD2 requirements, have progressed significantly and remain amongst CDB's top priorities.

In line to the stated strategy of disengaging from its Russian operations, the Bank proceeded in October 2018 with an application to Central Bank of Russian Federation (CBRF) for a voluntary wind up, which was approved in December 2018. The wind-up process has progressed significantly and is expected to be completed within the third quarter of 2019.

BRANCHES

The Bank carries out its activities through its head office and two business centres, one in Nicosia and one in Limassol.

MANAGEMENT BODY

The names of the members of the Management Body (MB) as at the date of this report (alternatively referred to as "Directors" and "Board of Directors" in the financial statements) are set out on page 3.

Directors George Loizou, Neoclis Nicolaou, Andreas Loizou, Menelaos Shiacolas, George Pavlides, Costas Argyrides and Andri Georghiou served on the Management Body throughout the year 2018. Mr. Kyriacos Christofi, the Chairman of the Management Body, resigned on 16 November 2018. Mr. George Loizou was elected as Acting Chairman on 1 December 2018. Mrs. Andri Georghiou resigned from the Management Body on 31 December 2018 and Mr. Sergey Novikov resigned on 26 May 2018.

Messrs. Wahid Chammas and Costas Poullis were appointed members of the Management Body on 26 June 2018 and 26 February 2019 respectively. Messrs Avgoustinos Papathomas and Christodoulos Plastiras were appointed members of the Management Body on 7 May 2019.

The members of the Management Body express their thanks to Messrs. Kyriacos Christofi, Andri Georghiou and Sergey Novikov for their valuable contribution.

MANAGEMENT REPORT (continued)

MANAGEMENT BODY (continued)

In accordance with the Bank's Articles of Association, at the Bank's Annual General Meeting for 2019, 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.

CORPORATE GOVERNANCE REPORT

1. Introduction

Good Corporate Governance safeguards an organization’s long term viability and is a key factor for the achievement of shareholder value maximization. An effective Corporate Governance framework facilitates communication between the key stakeholders of the organization and ensures strategic objectives are achieved.

Another key objective of the Corporate Governance Framework is to ensure compliance with the applicable legal and regulatory requirements. The Group is subject to the Directive on Governance and Management Arrangements of the Central Bank of Cyprus (the ‘CBC Governance Directive’).

Details on how the Group has applied the provisions of the CBC Corporate Governance Directive are provided in this report.

The Board aims to adopt a robust corporate governance framework with clearly defined lines of responsibility which promote segregation of duties and limit conflicts of interest as well as effective processes to identify, manage, monitor, control and report the risks to which the Group is or might be exposed to. In this respect, the Group has adopted the three lines of defence framework for risk management and risk oversight. The Board has delegated the authority to committees of the Board to support its oversight of risk and control. The Committees are the Audit Committee (‘the AC’), the Risk Committee (‘the RC’), the Nominations and Remunerations Committee (‘the NRC’), the Credit Committee (‘the CC’), and the Technology Committee (‘the TC’). Details of these Committees are provided in the sections to follow. The Chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board. The Committees terms of reference are available on the Bank’s website www.cdb.com.cy.

The Group is currently in the process of reviewing its Corporate Governance Framework as part of its monitoring and review process.

2. Management Body

The authorities of the members of the Board derive from the Articles of Association of the Bank and are specified by Banking Laws and the Directives of the CBC.

The Board is responsible for ensuring that the management maintains an appropriate system of internal controls which provides assurance for effective operations, internal controls and compliance with rules and regulations. It has the overall responsibility for the Group and approves and oversees the implementation of the Group’s strategic objectives, risk strategy and internal governance.

2.1. The role of the Management Body

The Board is the management body of the Group and it has the primary responsibility for setting the strategic objectives of the Group and to ensure that the necessary human and financial resources are in place to meet the strategic and operational objectives.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

The Board has the overall responsibility for:

- Setting and overseeing the values and standards of the Group
- Setting and overseeing the strategy of the Group
- Setting and overseeing the business model of the Group
- Maintaining an effective system of controls to ensure the effective operation of the Group and compliance with applicable laws and regulations.
- Setting the framework and policy for effective governance and oversight of the Group.
- Monitoring business performance against strategic objectives, risk appetite and expected standards.

The Board is responsible for ensuring that the Board and Committees composition and organization are appropriate.

The Board is a decision - making body for all matters of importance because of their strategic, financial or reputational implications or consequences. Specific decisions and matters are reserved for approval by the Board. Such matters include, inter alia, setting of the Group's strategy and targets, approval of the annual budget, approval of capital and funding plans, decisions on important matters and material transactions, transactions with Board Members and Senior Executives or Shareholders, the appointment, replacement, transfer and removal from office of the heads of internal control functions, matters concerning the composition and organization of the Board and Board Committees, governance matters.

In addition, the Board is responsible for determining the nature and extent of the principal risks the Group is willing to assume in achieving its strategic objectives and ensuring the maintenance of an effective risk management and oversight framework across the Group.

Furthermore, the Board has the responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects, including in relation to the annual financial statements, other public reports and reports required by regulators and by law.

2.1.1. Information Support

The Board meets on a regular basis and has a formal schedule of matters of consideration which is reviewed annually. The Board receives regular reports and presentations from the Group Chief Executive Officer ('the Group CEO') and other senior management on strategy and developments in the operations of the Group. The Board is regularly provided with reports on the Group's risk exposure, risk management, credit exposures and the Group's loan portfolio, NPE management, liquidity, financial position as well as compliance issues.

2.2. Composition of the Management Body

As at 31 December 2018 the Board comprised of seven Directors: one executive Director and six non-executives. In November 2018, Mr. Kyriakos Christofi, the Group's Chairman resigned after having completed a service of nine consecutive years on the Board. Board elected Mr. George Loizou as Acting Chairman of the Group. In December 2018, the Board appointed three independent non-executive Directors, pending approval by CBC.

The names and brief biographical details including each Director's background, experience and status

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

are set out in section 4 below.

The NRC is responsible to ensure that the composition of the Board is appropriate in terms of structure, size, tenure, skills, knowledge, experience and diversity (e.g. age, gender, etc) and that the Board and its Committees comprise of Directors who have a broad perception of the Group's activities and the risks associated with them.

The Members of the Board are required to confirm, on an annual basis, any changes in their circumstances in respect of their compliance with the CBC Directive on the Assessment of the Fitness & Probity of the members of the management body and managers of authorized credit institutions ('CBC Fitness & Probity Directive').

Non- Executive Directors are not employees of the Group and do not participate in the daily management of the Group. They are responsible for monitoring executive activity and contributing to the development of strategy. Their role is to constructively challenge the Group's existing strategy, contribute to the development of new strategies, oversee and challenge the performance of senior management in meeting agreed targets and objectives as well as to satisfy themselves on the integrity of financial information and that the systems of internal controls, compliance and risk management are robust.

2.2.1. Meetings of the Management Body

During 2018 the Board held 16 meetings. Details on the number of meetings of the Board and its committees and attendance of individual Directors are set out below.

	MB	Risk	Audit	NRC	Credit	Technology
Total Meetings - 2018	16	5	8	9	11	1
Kyriacos Christofi	14			8		
Neoclis Nicolaou	14	4		6	11	1
Andreas Loizou	13	3	7		8	
George Loizou	15	4		8	9	1
Sergey Novikov	4	2	2		0	
George Pavlides	14		8			
Melis Shiacolas	12	3		7	9	
Andri Georghiou	12			5	10	1
Costas Argyrides	16					1
Wahid Chammas	5				4	

Mr. Sergey Novikov resigned on 26.5.2018

Mr. Wahid Chammas was appointed on 26.6.2018

Ms. Andri Georghiou resigned on 31.12.2018

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Agendas and papers are circulated to each meeting and all members of the Board are informed in writing of forthcoming Board meetings to allow them sufficient time to review the relevant information and to enable them to fully discharge their duties.

The Company Secretary is closely involved in preparing the schedule of all Board and committee meetings and the agendas of these meetings, in conjunction with the Chairman, ensuring that relevant information is circulated timely to all members of the Board.

The Company Secretary's responsibilities include facilitating the flow of information within the Board and its committees, between Senior Management and non-executive Directors and between Heads of internal control functions and non-executive Directors, as well as, facilitating the induction, development and evaluation of members of the Board.

All Directors have access to the advice and support of the Company Secretary. Independent advice is also available to the Directors at the Group's expense if and when required. Committees of the Board have similar access and are provided with sufficient resources to undertake their duties. All Directors have the benefit of directors' and officers' liability insurance in respect of legal actions against them.

2.2.2. Conflicts of interest

The Group's conflict of interest policy which also applies to Directors, sets out how conflicts of interest are to be identified, reported and managed to ensure that the Directors as well as all officers and employees of the Group, act at all times in the best interests of the Group. The policy also sets out their duty to avoid, manage and disclose actual, potential or perceived conflicts of interest. The policy is reviewed on a regular basis and is communicated throughout the Group. Related party transactions are disclosed in note 41 to the financial statements.

2.2.3. Time commitment

The Group expects non-executive Directors to devote sufficient time to discharge their duties. Time devoted to the Group can vary considerably depending on Directors serving on Board committees.

The NRC considers whether the potential Director is able to devote the requisite time and attention to the Group's affairs prior to the Board's approval of the individual's appointment.

The CBC Fitness and Probity Directive which incorporates the provisions on the management body of credit institutions in Article 91 of the European Capital Requirements Directive ('CRD IV'), determines that a Director cannot hold more than one of the following combinations:

- One executive directorship and two non-executive directorships
- Four non-executive directorships

Executive or non-executive directorships held within the same group, count as a single directorship. Directorships in organizations which do not pursue predominately commercial objectives do not count for the purpose of the above guidelines.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

2.2.4. Group Chairman

The Chairman ensures the effective functioning of the Board on all aspects of its role including:

- Providing leadership to the Board.
- Ensuring that the Board determines the nature and extent of the significant risks the Group is willing to embrace in the implementation of its strategy.
- Ensuring that the members of the Board have sufficient time to consider strategic and other critical issues and obtain answers to any questions or concerns they may have and are not faced with unrealistic deadlines for decision making.
- Encouraging the active participation of members of the Board.
- Ensuring conflicts of interests are disclosed and members abstain from participating in the decision making and voting on any matter on which they may have a conflict of interest.
- Ensuring that adequate time is allowed for discussion of complex or contentious or strategic issues and, where appropriate, arranging for informal meetings beforehand to enable thorough preparation for the Board discussion.
- Promoting high standards of corporate governance.

During 2018 the Chairman of the Group resigned after having completed a service of nine consecutive years on the Board. Mr. George Loizou was elected by the Members as the Acting Chairman. The Chairman commits a substantial amount of time to the Group. There were no changes to the other significant commitments of the Chairman during the year ended 31 December 2018.

2.2.5. Group CEO

The Group CEO is responsible:

- To develop and present to the Board the strategy of the Group.
- To execute the approved strategy.
- To lead the senior management team in the day-to-day running of the business.
- To make decisions on matters affecting the operations, performance and strategy of the Group's business with the exception of those matters reserved for the Board.

2.2.6. Senior Independent Director

The Senior Independent Director ('SID') is available to shareholders and Directors if they have concerns that are not resolved through normal communication channels. He provides support to the Chairman in delivering his objectives. He chairs a session of the non-executive Directors to assess the performance of the Chairman as part of the annual evaluation of Board performance provided for in the CBC Governance Directive.

2.3. Board Balance and Independence

The CBC Governance Directive defines the minimum requirements for Board Members independence so that no individual or small group of individuals can dominate the Board's decision-taking.

The NRC and the Board consider the independence status of each Director on appointment. In addition, the independence status of each Director is reviewed on an annual basis to ensure that the determination regarding independence remains appropriate.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

In 2018 the Board considered the principles relating to independence contained in the CBC Fitness and Probity Directive and concluded that the status of each Director as determined remained appropriate. The status of each Director is presented in the biographical details in section 4 of this report.

The Board considers that each non-executive Director brings independent challenge and judgement to the workings of the Board, through their character, objectivity and integrity.

2.3.1. Appointments to the Board

The Board recognizes the need to identify the best qualified and available people to serve on the Board. It is responsible for the appointment of Directors. All appointments are made on merit against objective criteria (including skills and experience) with due regard for the benefits of diversity on the Board.

In assessing potential candidates, the Board considers in addition to the skills and experience required for the role, the ability of the candidate to devote sufficient time to the role as well as possible conflicts of interest. The assessment process and the due diligence process includes external checks of various publicly available sources.

At the time of appointment non-executive Directors are provided with a letter setting out the terms of his/ her appointment, including the time commitment expected. Directors are required to devote adequate time to the business of the Group, which includes attendance at regular meetings, training sessions and briefings and preparation time for meetings. In addition, non-executive Directors are normally required to sit on at least one committee of the Board, which involves the commitment of additional time.

2.3.2. Directors inductions and ongoing development

Induction programs, with particular emphasis on risk management and internal control systems are arranged for newly appointed Directors. The programs also include a series of meetings with senior executives and other Directors to enable new Directors to familiarize themselves with the business, management and governance structure including the function of the Board and the role of the committees.

In addition, the Company Secretary is responsible, under the supervision of the Chairman, to develop programs based on the Director’s individual needs. Following appointment, each Director receives a relevant package and undergoes an induction program.

Focused training of the Board is also arranged where information is provided to ensure that Directors receive adequate insight into a particular area through presentations by Group Businesses and briefings with senior management. Dedicated training sessions also take place on particular issues usually identified by the Directors themselves and the Company Secretary.

All the members of the Board are provided on appointment with an information pack which includes, among others, key policies as well as key legislation, directives and regulations and the Company’s Articles of Association.

During 2018, training sessions were conducted with the contribution of senior managers of the Group and/ or external advisors and covered issues relating to existing and new regulations. The training material is distributed to all Directors regardless of attendance.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Directors are also offered the option of attending suitable external educational courses, events or conferences designed to provide an overview of current issues of relevance to Directors. The Company Secretary ensures all Directors are provided with relevant information on a timely basis to enable them to consider issues for decision-making and discharge of their oversight responsibilities.

The Directors also have access to the advice of the Group external legal advisors and to independent professional advice, at the Group's expense, if and when required. Board committees have similar access and are provided with sufficient resources to undertake their duties. The Directors also receive comprehensive guidance from the Company Secretary on Board procedures as well as guidance on duties and obligations.

In the performance of their roles, executive Directors develop and refresh their skills and knowledge of the Group's business and operations through regular interactions, meetings and briefings with senior management and through presenting on the Group's business to investors and analysts. They remain abreast of developments affecting the financial services sector and banking by representing the Group's interests at conferences, advisory groups and other events and meetings with regulators and other authorities.

2.3.3. Loans to Directors and other transactions

Details of loans to Directors and other transactions with the Group are set out in note 41 to the financial statements for the year ended 31 December 2018.

The Banking Law currently forbids the extension of any credit to independent members of the Board, but the CBC may exempt certain exposures from time to time having regard to the exceptionally low risk arising from the exposures concerned. Furthermore, any credit to be extended to non-independent members of the Board must comply with the following provisions of the Law:

- be approved by a resolution of the Board carried by a majority of two-thirds of the members that participated in the relevant Board meeting and the member concerned should neither be present during the discussion nor vote on the resolution,
- the exposure granted should be on the same commercial terms as would apply to customers for similar exposures in the ordinary course of banking practice,
- the total value of exposures in respect of all members of the Board should not exceed at any time 10% of CDB Banks's own funds, or such other lower percentage as the CBC may determine from time to time,
- the total value of any unsecured exposures granted to all members of the Board should not exceed at any time 1% of the CDB Bank's own funds or such other lower percentage as the CBC may determine from time to time,
- the total value of exposure to any member of the Board should not exceed at any time the amount of €500,000 or such other lower amount as the CBC may determine from time to time, and
- no financing is permitted to any executive member of the Board that does not comply with the commercial terms or exceeds the limits that apply to all staff or such other lower amount as the CBC may determine from time to time.

All members of the Board complied with the relevant provisions of the Banking Law as at 31 December 2018.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

3. Internal controls

The Board is responsible for the adequacy and effectiveness of the system of internal controls in the Group. This system aims to ensure:

- The effectiveness of the governance framework is monitored, and periodically assessed and appropriate steps are taken to timely address any deficiencies.
- The appropriate compliance framework is in place.
- The integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.
- The appropriate information security framework for the protection of confidential information is in place.
- The system of internal controls has been designed in accordance with the nature, scale and complexity of the Group's operations in order to provide reasonable but not absolute assurance against material misstatements, errors, losses, fraud or breaches of laws and regulations.

The overall internal control systems of the Group include:

- A transparent organisational structure with clear reporting lines to Senior Management and the Board.
- Three lines of defence model for the management of risks across the Group.
- Board and Executive Committees with clear responsibilities.
- Policies and procedures.
- Monthly reporting by business lines to enable progress to be monitored, trends to be evaluated and variances to be acted upon.
- Monthly meetings of ExCo (Executive Committee) to review performance.
- A Code of Conduct setting out the standards expected of all officers and employees, and
- A Whistleblowing Policy including processes and procedures to be followed for independent investigation of concerns raised by staff

The Board through the AC and the RC, receives the results of reviews conducted by internal and external parties through which it assesses the effectiveness of the Group's internal control and information systems, as well as in relation to the procedures used to ensure the accuracy, completeness and validity of the information used for internal and regulatory reporting. The reviews cover financial, operational and compliance systems of internal controls, as well as risk management systems. In addition, the AC and RC receive business and operational risk assessments, regular reports from the Group's Internal Auditor, the Chief Compliance Officer and Chief Risk Officer, internal and external audit reports, as well as regulatory reports.

The Board, through the AC and RC, is informed on a regular basis about the actions taken by executive management to remedy the weaknesses identified through the operation of the Group's framework of internal controls.

Based on the internal audit work carried out in 2018, significant steps have been made, which further strengthened the Group's system of internal controls. In particular, progress was made in the NPE management and the arrears management process, areas which pose the most important risks for the Group.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Moreover, there is still room for improvement in certain areas within governance, the information systems and information security environment and compliance with new regulations such as MiFID II.

The Group's financial reporting process is controlled using documented accounting policies and procedures supported by instructions and guidance on reporting requirements. The internal control system also ensures that the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with legal and supervisory requirements and relevant standards, is adequate.

The Group has in place an effective financial statement closing process by which transactions and events reflected in the Group's accounting records are processed to produce the financial statements, related disclosures and other financial reports.

The Annual Report prior to its submission to the Board is reviewed and approved by the ExCo (Executive Committee). The Board, through the AC scrutinizes and approves the financial statement and the Annual Report and ensures that appropriate disclosures have been made. This governance process ensures that both management and the Board are given sufficient opportunity to challenge the Group's financial statements and other significant disclosures before their publication.

3.1. Group code of conduct and whistleblowing policy

The Group has set out the standards that are expected from all the employees and Directors of the Group in a Code of Conduct along with guidance on how these standards should be applicable.

The Group also has a Whistleblowing Policy in place for all staff, including Directors, which is in accordance with international practice. The policy is reviewed annually. Its general principles are:

- Concerns in good faith, about wrongdoing or malpractice can be raised in confidence without fear of victimisation, discrimination, disadvantage or dismissal.
- Procedures for the reporting of any matters of concern are clearly provided. The persons concerned must be able to bypass the main channels for whistleblowing if these prove inappropriate and use the anonymous reporting line.
- Disclosures are managed in a timely, consistent and professional manner.

The Board and Group CEO are committed to this policy, which encourages staff to raise concerns.

4. Members of the Management Body

4.1. Non-Executive Directors

Andreas Loizou
Born in 1964. He holds a BSc in Management Sciences from the University of Manchester Institute of Science & Technology. In 1991 he became member of the Institute of Chartered Accountants in England and Wales and subsequently a Fellow. He also holds a Certificate and a Diploma from the Institute of Directors (UK), and is a member of the Institute of Certified Public Accountants of Cyprus. He is the Managing Director of the Dutch subsidiary company of Medochemie Ltd, FAL B.V. and as such he has the overall responsibility for the success of this Dutch factory. Additionally, he is the Medochemie Licensing Manager which includes the licensing out with a supply obligation of the pharmaceutical dossiers owned by Medochemie.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Andreas Loizou (continued)

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No
Member of a Board Committee:
- Chairman of the Audit Committee (until 8 May 2019 and member thereafter)
- Credit Committee

George A. Loizou (Acting Chairman)
Born in 1953. He is an experienced banker and risk management professional with extensive experience in operational risk management. He is a graduate of the Dale Carnegie Leadership Course with specialisation in Management. He is also an Associate of the London Institute of Banking and Finance, and a Professional Member of the Institute of Operational Risk Management (PIOR), UK as well as a Certified Trainer by the HRD. In 1973 he joint Barclays Bank PLC (Cyprus) where he worked at various positions. From 1996 to 2013 he was employed by Hellenic Bank PLC's where he served at various managerial positions before becoming the Group's Operational Risk Manager. He also served as a member of the Risk Management Committee of the JCC Payment Systems. Following his retirement from Hellenic Bank he assumed consultancy and training projects for renowned institutions in Cyprus, in the areas of Banking and Risk Management.

Term of Office: Appointed to the Management Body on 8 April 2015
Independent: Yes
Member of a Board Committee:
- Served as Chairman of the Risk Committee until December 2018. Currently serves as Member of the Risk Committee.
- Chairman of the Nominations and Remunerations Committee.
- Credit Committee

George Pavlides
Born in 1953. He is a UK qualified Chartered Accountant of the Institute of Chartered Accountants in England and Wales since 1977. He spent his earlier career with top 4 audit firms Deloitte & Touche and Ernst & Young. Subsequently he moved into the business sector where he held senior managerial positions with several large international organisations including the AG Leventis Group, Agip (Hellas) and Raychem Corp. (US). Between 2000 and 2008 he was employed as Deputy General Manager and subsequently Branch Manager at DEPFA Bank PLC (Cyprus Branch). He is currently a Financial Administrator for the Leonidas Ioannou family.

Term of Office: Appointed to the Management Body on 8 April 2015
Independent: No
Appointed as the member of the MB responsible of the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2018 until 9 May 2019
Member of a Board Committee:
- Chairman of the Risk Committee
- Audit Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Menelaos Shiacolas
Born in 1971. He is a Barrister in Law and an experienced business professional. He serves as a director of a number of companies of the CNS Group (a Cyprus based group of companies with various sectors of activity in Cyprus) such as The Cyprus Trading Corporation Ltd, Ermes Department Store Ltd, F. W. Woolworth Ltd, Charalambides Christis, Cablenet Communication Systems Ltd, Cyprus Phassouri Plantations Group. He holds an LLB at Law from the University of Kent and an LLM Barrister at Law of Kings College, London.

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No
Member of a Board Committee:
- Nomination and Remuneration Committee
- Risk Committee
- Credit Committee

Neoclis Nicolaou (Vice Chairman)
Born in 1959. He is Specialist in Corporate and Investment Banking. He has extensive experience in investment Management, capital raising, project and investment financing, financial engineering, valuations and mergers and acquisitions. Extensive experience in corporate strategy work. Over the years he has made Investment Banking services available to a large number of local and overseas companies both private and public. He has also acted as an expert advisor on governmental projects. He acted as the lead manager on behalf of the Eurogate consortium which was successful in acquiring the concession for the Limassol Container Terminal. He has served as a non-executive director in a number of institutions including TFI Public Co. Ltd, The Argus Lamda Fund Ltd, The Argus Stockbrokers Ltd, IronFX Global Ltd, The Cyprus International Institute of Management, Global Capital Securities and Financial Services Ltd etc. Currently he is the Managing Director of Neoconsult Ltd. He holds a Bachelor in Econometrics from the Manchester University and an MBA from the Manchester Business School.

Term of Office: Appointed to the Management Body on 7 February 2008
Independent: No
Member of a Board Committee:
- Chairman of the Credit Committee
- Chairman of the Technology Committee
- Nominations and Remunerations Committee
- Risk Committee

Wahid Chammas
Born in 1975. He is an experienced investment management professional with over two decades of financial industry experience. He is the Founder and Chief Investment Officer of TyreGate Capital Holdings Ltd, a private equity business with over 40 owned companies. Previously, he was with Janus Capital Group for 11 years where he served as a Managing Director, Portfolio Manager and Head of the developed and emerging EMEA investment franchise and strategies, and where he established Janus' investment presence in Europe in 2008. He was recognized in Financial News (Dow Jones) as a Rising Star, 40 Under 40 in Asset Management, and has been highly rated on numerous occasions by Citywire. Prior to joining the Janus in January 2005, he spent eight years at Goldman, Sachs & Co., where he was

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Wahid Chammas (continued)

a Vice President and sell-side Equity Securities Analyst, covering the media sector. He joined Goldman Sachs' Investment Research Division as a Vice President in 2002 from Goldman Sachs Asset Management, where he served as the Chief-of-Staff for the U.S. distribution group, supporting strategic planning and management activities across the asset management division. He received his Bachelor of Arts degree in Biology from Amherst College in 1997.

Term of Office: Appointed to the Management Body on 26 June 2018
Independent: No
Member of a Board Committee:

- Credit Committee

Costas Poullis

Born in 1948. He holds a BSc in Economics from the University of London and an MSc in Agricultural Economics from the University of Newcastle Upon Tyne, UK. After a brief spell at the Statistics Department of the Ministry of Finance in Cyprus, he joined the Central Bank of Cyprus (CBC) in 1973. At the CBC he served in the International Division, the Economic Research Department and the Supervision and Regulation of Credit Institutions Division. He retired as a Senior Director in 2012.

Term of Office: Appointed to the Board of Directors on 26.02.2019
Independent: Yes
Member of a Board Committee:

- Audit Committee
- Nominations and Remunerations Committee

Avgoustinos Papathomas

Born in 1963. He holds a BSc and BEng in Engineering Manufacture and Management from the University of Manchester Institute of Science & Technology. He is a fellow of the Institute of Chartered Accountants in England and Wales, a member of the Institute of Certified Public Accountants of Cyprus and a licensed Insolvency Practitioner. Avgoustinos is the senior partner of a recently established Advisory and Audit firm, APP Advisory/Audit. Augoustinos has served as a director on various organizations and is currently the chairman of the Famagusta Chamber of Commerce and Industry.

Term of Office: Appointed to the Board of Directors on 07.05.2019

Independent: Yes

Appointed as the member of the MB responsible of the Prevention and Suppression of Money Laundering Activities Laws of 2007 to 2018 on 9 May 2019
Member of a Board Committee:

- Chairman of the Audit Committee (from 8 May 2019)
- Nominations and Remunerations Committee

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

Christis Plastiras

Born in 1984. He is an enthusiastic entrepreneur with extensive knowledge in Banking, Technology, Finance and Business and holds a Bachelor's degree in Computer Science from the University of Cambridge and a Master's degree in Finance from Imperial College. He is the co-founder and non-executive Director of Melior Capital, a technology company which develops and runs some of the country's most successful e-commerce projects and serves as a director of a number of other technology companies. Christis has led the Digital Transformation of many large corporations in a variety of industries and participates as a mentor or judge in many start-up initiatives in Cyprus and abroad.

Term of Office: Appointed to the Board of Directors on 07.05.2019

Independent: Yes

- Audit Committee
- Risk Committee

4.2. Executive Directors

Costas Argyrides (Group CEO)

Born in 1967. He is an experienced Chief Executive Officer and financial services professional having served in various senior roles for over 20 years in financial institutions. He serves as Chief Executive Officer and Executive Director of Cyprus Development Bank PCL since July 15, 2017 and July 25, 2017. Previously, he served as Director of Wealth, Asset Management and Brokerage at Bank of Cyprus Public Company Limited since December 6, 2013. During the period 1993-2008, he was employed by the Cyprus Popular Bank where he served in various managerial positions including Group Treasurer, General Manager UK and Director Wealth Management. He studied Economics at Queen Mary College, University of London and then acquired an M.Sc in Shipping Trade & Finance from Cass Business School. He is also a member of the Chartered Institute for Securities and Investments.

Term of Office: Appointed to the Management Body on 25.7.2017
Independent: No
Member of a Board Committee: None

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5. Board Committees

In order to exercise proper oversight of risk and control, the Board has delegated certain responsibilities to committees of the Board. The principal committees are the AC, the RC, the N&RC and the CC. The key roles of the Board committees are provided in the sections that follow. The terms of reference of the main statutory committees are based on the relevant provisions of the CBC Governance Directive and are available on the Group's website (www.cdb.com.cy) or by request to the Company Secretary.

The overall responsibility for approving and monitoring the Group's strategy, risk appetite and policies for managing risks lies with the Board, which exercises this responsibility through two of its main committees, namely the RC and the AC.

The chairperson of each committee reports on matters discussed during committee meetings to the subsequent scheduled meetings of the Board and minutes of these meetings are tabled at the Board as soon as possible for noting and/or discussion, as necessary. This linkage is important between the committees as it ensures alignment of the work conducted by the various committees.

In 2018, the Board set up a Technology Committee to drive the technological and digital transformation of CDB Bank. As at 31 December 2018, the Committee comprised of 3 non-executive members.

5.1. Nominations and remunerations committee (NRC)

The NRC comprised three non-executive Directors at 31 December 2018, one of whom was independent. It is chaired by the Chairman of the Board, except when the NRC is dealing with the appointment of a successor to the role of chairperson.

Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 9 meetings in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The key responsibilities of the NRC are set out in its terms of reference, which are available on the Group's website (www.cdb.com.cy) and have been approved by the Board.

The role of the Committee is to ensure that the Board is comprised of members who are best able to discharge the duties and responsibilities of Directors and to support and advise the Board in relation to:

- Board recruitment (including regularly reviewing, reporting on and taking into account, when making further appointments, the composition and effectiveness of the Board),
- Vice-Chairperson, Director and CEO development (under the overall responsibility and supervision of the Chairperson of the Board),
- Chairperson development (under the overall responsibility and supervision of the SID),
- The ongoing evaluation of the structure, size, composition and performance of the Board, its committees and individual Directors, and
- Succession planning for Directors and senior management
- To ensure that the Group is equipped with the human capital necessary for the achievement of its strategic goals, whose reward will be based on personal performance and Group results.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

- To propose adequate remuneration considered necessary to attract and retain high value-adding professionals. Therefore, remuneration has to be satisfactory vis-a-vis peer companies.
- To set the overarching principles and parameters of compensation and benefits policies across the Group and exercise oversight for such issues.
- To consider the remuneration arrangements of the executive Directors of the Group, other identified staff and the employee Remuneration Policy bearing in mind the European Banking Authority ('EBA') Guidelines on remuneration policies and practices and the CBC Governance Directive.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

5.2. Audit committee (AC)

As at 31 December 2018, the AC comprised of two non-executive Directors. Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 8 meetings in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The key responsibilities of the AC are set out in its terms of reference, which are available on the Group's website (www.cdb.com.cy) and have been approved by the Board.

The role of the Committee, inter alia, is:
- To oversee the system of internal controls including reviewing its effectiveness;
- To monitor the integrity of the Group's financial statements;
- To monitor the effectiveness of the internal audit function;
- To advise the Board on appointment of the external auditors and be responsible for oversight and remuneration of the external auditor;
- To review the Group's and Company's financial and accounting policies and practices;
- To monitor the effectiveness of the anti-money laundering function of the Company and all other aspects of regulatory/ethics compliance; and
- To make recommendations to the Board on such matters.

The role of the Committee is fundamental to ensuring the financial integrity and accuracy of the Company's financial reporting. Good, open relationships between the Committee, the Finance Director, the Group Internal Audit Director and the Director of Group Compliance as well as the external auditors, are essential to adding value to the organisation. This is achieved by holding management to account for the implementation of all audit recommendations (internal and external). In addition to providing assurance within the governance and accountability structures of the Group, it is essential that the Committee contributes, delivers results and adds value to the Group.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

5.2.1. Internal audit independence

The Group Internal Audit and Group Compliance Divisions report directly to the Board through the AC. They are organisationally independent of units with executive functions and are not subordinated to any other unit.

The Committee’s activities include considering reports submitted by the Group Internal Audit and Group Compliance Divisions as well as regular meeting with the Internal Auditor and the Compliance Officer through which the Committee assesses Internal Audit unit and Compliance Unit effective and adequately resourcing. Management’s responses to Group Internal Audit’s findings and recommendations are also reviewed and monitored by the Committee. The reports issued by the Internal Auditor and the Compliance Officer enable the Committee to focus discussion on specific areas of concern and root causes and to track remediation progress over time.

5.3. Risk committee (RC)

The RC is responsible for advising the Board on high-level risk related matters and risk governance and for non-executive oversight of risk management and internal controls (other than financial reporting).

The RC on 31 December 2018 comprised three non-executive Directors. Biographical details, including each member’s background, experience and independence status are set out in section 4 of this report.

The Committee held 5 meetings in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The main purpose of the Committee is to review, on behalf of the Board, the aggregate risk profile of the Group, including performance against risk appetite for all risk types and to ensure that both the risk profile and risk appetite remain appropriate. Specifically, it:

- Advises the Board on risk appetite and alignment with strategy.
- Monitors the effectiveness of the Group’s risk management and internal control systems except from financial reporting and compliance internal control systems.
- Monitors the Group’s risk appetite and risk profile against key performance/risk indicators as set out in the Group’s Risk Appetite Statement.
- Identifies the potential impact of key issues and themes that may impact the risk profile of the Group.
- Ensures that the Group’s overall risk profile and risk appetite remain appropriate given the external environment, any key issues and themes impacting the Group and the internal control environment.
- Seeks to identify and assess future potential risks which, by virtue of their uncertainty, of low probability and unfamiliarity may not have been factored adequately into review by other Board Committees.

The Group, like all other financial institutions, is exposed to risks, the most significant of which are credit risk, liquidity and funding risk, market risk, operational risk and property price risk. The Group monitors and manages these risks through various control mechanisms and reviews the mitigating actions proposed by management.

Information relating to Group Risk Management is set out in note 38 to the financial statements.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

5.4. Credit Committee (CC)

The CC is responsible for advising the Board on significant credit risk exposures.

The CC on 31 December 2018 comprised 5 non-executive Directors. Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 11 meetings in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The main purpose of the Committee is to review, on behalf of the Board, individually significant

exposures for both new lending and restructuring within approval authorities reserved by the Board and to ensure that the risk profile of such exposures is in line with the risk appetite for credit risk, risk strategy and credit risk policies.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

5.5. Technology Committee (TC)

The TC was established in 2018 and is responsible for advising the Board on the IT and Digital Strategy of the Group and oversee and monitor its implementation.

The TC on 31 December 2018 comprised 2 non-executive Directors. Biographical details, including each member's background, experience and independence status are set out in section 4 of this report.

The Committee held 1 meeting in 2018. The Chairman and members of the Committee together with their attendance at meetings are shown in section 2.2.1.

The main purpose of the Committee is to review, on behalf of the Board, and advice the Board on the appropriate IT and digital strategy of the Group, and to ensure its alignment to the Group's business strategy. In addition, it is responsible to approve and prioritise major technology-related projects and ensure that all necessary resources for the implementation of the strategy are made available.

The Chairman of the Committee reports to the Board after each meeting to ensure all Directors were fully informed of the Committee's activities.

6. Remuneration policy

In developing its Remuneration Policy, the Group takes into account the provisions that are included in the CBC Directive on Governance and Management Arrangements of Credit Institutions (the 'CBC Governance Directive') which came into effect in August 2014 and incorporated the requirements for Remuneration Policies included in the European Capital Requirements Directive ('CRD IV') and the EBA Guidelines on sound remuneration policies issued in December 2015, as well as regulatory restrictions pertinent to the banking sector currently.

The remuneration of non-executive Directors is determined and approved by the Board. Neither the Chairman nor any Director participates in decisions relating to their own personal remuneration.

MANAGEMENT REPORT (continued)

CORPORATE GOVERNANCE REPORT (continued)

The Group's aim is to align its Remuneration Policy and human resources practices, with its long term objectives, its risk tolerance, capital and liquidity availability, the interests of its shareholders and ensure that they are consistent with and promote sound and effective management of risk and do not encourage excessive risk-taking.

7. Shareholders relations

One of the responsibilities of the Chairman of the Board is to ensure that the views, issues and concerns of shareholders are effectively communicated to the Board and to ensure that Directors develop an understanding of the views of major investors. The SID is available to shareholders if they have concerns that are not resolved through the normal communication channels.

All shareholders of the Company are treated on an equal basis. There are no shareholders with special control rights. Shareholders are informed of any material changes regarding the Group, including its financial condition, financial results, ownership and governance.

Any change or addition to the Articles of Association of the Company is only valid if approved by special resolution at a meeting of the shareholders.

Details of the shareholders are disclosed in note 40 to the financial statements.

RELATED PARTY TRANSACTIONS

Disclosed in note 41 to the consolidated and standalone financial statements.

EVENTS AFTER THE REPORTING PERIOD

Disclosed in note 44 to the consolidated and standalone financial statements.

INDEPENDENT AUDITORS

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

By the order of the Management Body

George Loizou
Acting Chairman

Nicosia, 28 June 2019

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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 and its subsidiaries (the "Group") and the separate financial statements of The Cyprus Development Bank Public Company Limited (the "Bank"), which are presented on pages 32 to 134 and comprise the consolidated statement of financial position and the statement of financial position of the Bank as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the Group and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the Bank 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 and separate financial statements give a true and fair view of the consolidated financial position of the Group and the Bank as at 31 December 2018, and their financial performance and their consolidated 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 of the separate financial statements"* section of our report. We remained independent of the Group and of the Bank throughout the period of our appointment 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 and 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 2.1 and 38.5 to the consolidated and separate financial statements, which indicate that the Bank was not in compliance with its regulatory capital requirement with respect to the total Capital Requirement ("Capital Adequacy Ratio"). As stated in note 2.1, this event, along with other matters as set forth in note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. Additionally, this note describes the significant steps taken by the Board of Directors and the Management of the Bank which has reversed this situation. As at the date of this report, the capital adequacy of the Bank is above the minimum total capital requirement set by the Central Bank of Cyprus. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the Bank's consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Provision for impairment of loans and advances

Refer to note 19 (loans and advances) and to note 2.4 (basis of preparation - adoption of new and revised International Financial Reporting Standards and Interpretations) to the consolidated and separate financial statements.

The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2018, gross loans and advances to customers held at amortised cost amounted to €313 million (2017: €318) and the related impairment loss allowance amounted to €67 million (2017: €63). Due to the adoption of IFRS9, the Bank adjusted the opening revenue reserves by recognizing a loss of €3,5 million. The Group adopted IFRS 9 Financial Instruments from 1 January 2018. IFRS 9 is a new and complex accounting standard which requires management to estimate expected credit losses (ECL) on financial instruments, which involves significant judgement and estimate, which resulted in an increase of the provision for impairment of loans and advances to customers at amortised cost. The key areas that required considerable judgement in our opinion and therefore greater level of audit focus regarding the estimation of IFRS 9 impairment loss allowance are:	Our audit procedures in this area included, among others: - Assessing the appropriateness of the assigned staging of the loans; - Assessing and challenging the appropriateness of the Bank's IFRS 9 impairment methodologies (including the SICR criteria used), key technical decisions, judgements, assumptions and the framework designed and implemented in determining the ECL staging assessment and the ECL estimate. Involving our own financial risk modelling specialists to assist us in performing the above procedures; - Assessing the appropriateness of the forecasts and macroeconomic variables used in the Bank's IFRS 9 model by comparing them to the relevant reports issued by external experts (Moody's); - Assessing collateral values with reference to valuations performed by external valuators,

- *Staging*: Assess the significant deterioration of credit risk and classify loans in credit risk stages; - *Macroeconomic scenarios to the ECL estimate:* IFRS 9 requires the Bank to incorporate forward-looking information into estimating ECL. This involves judgement in determining the macroeconomic scenarios used and the weightings applied to them; - *ECL estimate:* The calculation of impairment allowance requires great judgment by the Management on the macroeconomic criteria to be used on the calculation of expected credit loss, which involves the determination of probability of default (PD), loss given default (LGD) and exposure at default (EAD). As a result of these matters, we determined that impairment of loans and advances to customers is a key audit matter.	property indices used and forecasted property indices; - Assessing the competence of Bank's external experts (valuators); - Assessing the accuracy of the features presented by the Bank to supporting evidence (ie mortgage documents, valuation reports, loan agreements); - Performing credit assessment and impairment recalculation for a sample of statistically selected loans exposures classified in stage 3, focusing on group of loans with different risk characteristics, assessing the adequacy of provision; - Testing the impairment loss allowance calculated on a collective assessment basis: We involved our own financial risk modelling specialists to assist us in performing these procedures. Key aspects of our testing involved: • assessing whether the modelling assumptions used considered the relevant risks and were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the borrowers; • assessing the incorporation of the impact of key macroeconomic variables in the Probability of Default ("PD"), Exposure at Default ("EAD") and Loss Given Default Models ("LGD") parameters used in determining the ECL estimate; • independently assessing PD, EAD and LGD assumptions by reperforming the calculations of PD, EAD and LGD parameters used as inputs to Bank's ECL models using our own in-house challenger model; • assessing the application of the Bank's Significant Increase in Credit Risk assessment methodology; • assessing the reasonableness of the overall ECL estimate by recalculating the Bank's overall ECL estimate. - Evaluating the adequacy of the consolidated and separate financial statement disclosures, including whether they reflect the Bank's exposure to credit risk.

Other information

The Board of Directors is responsible for the other information. The other information comprises the management report and the corporate governance statement, 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.

With regards to the management report and the corporate governance statement, our report in this regard is presented in the *"Report on other legal and regulatory requirements"* section.

Responsibilities of the Board of Directors and those charged with governance for the consolidated and separate financial statements

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

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

The Board of Directors and those charged with governance are responsible for overseeing the Group's and the Bank's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated and 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 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 and 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 Group's and the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated and 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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 of the Group and the Bank to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and the Bank audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of European Union (EU) Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of appointment and period of engagement

We were appointed auditors of the Group and the Bank on 1 June 1963 by the General Meeting of the Company's members to audit the consolidated and separate financial statements for the year ended 31 December 1963. Our total uninterrupted period of engagement, having been renewed annually by shareholders' resolution, is 56 years covering the periods ending 31 December 1963 to 31 December 2018.

Consistency of auditors' report to the additional report to the Audit Committee

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee dated 25 June 2019.

Provision of Non-audit Services ('NAS')

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L.53(I)/2017").

KPMG

Other legal requirements

Pursuant to the additional requirements of law L.53(I)/2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the management report, 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 consolidated and separate financial statements.
- In the light of the knowledge and understanding of the business and the Group's and Bank's environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, ,has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the consolidated and separate financial statements.
- In light of the knowledge and understanding of the Group and Bank and their environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of the subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113. We have not identified any material misstatements in this respect.
- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap.113.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L.53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Maria A. Papacosta.

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

28 June 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Continuing Operations			
Turnover		17.977	18.176
Interest income calculated using the effective interest method	5	13.555	12.067
Interest expense calculated using the effective interest method	6	(3.629)	(4.700)
Net interest income		9.926	7.367
Fee and commission income	7	3.229	2.929
Fee and commission expense	8	(334)	(282)
Net foreign exchange gains	9	849	1.267
Other income	10	344	1.913
Total net income		**14.014**	**13.194**
Staff costs	11	(6.773)	(6.026)
Other operating expenses	12	(3.374)	(4.164)
Depreciation	13	(730)	(634)
Profit before provisions for impairment		**3.137**	**2.370**
Provisions for impairment	13	(4.433)	(4.637)
Loss before tax from continuing operations		**(1.296)**	**(2.267)**
Tax	14	(694)	(675)
Loss for the year after tax from continuing operations		(1.990)	(2.942)
Discontinued Operations			
Loss after tax from discontinued operations	15	(163)	(1.129)
Loss for the year		**(2.153)**	**(4.071)**
Loss for the year attributable to:			
Owners of the Bank – continuing operations		(1.980)	(2.928)
Owners of the Bank – discontinued operations		(163)	(1.129)
		(2.143)	(4.057)
Non-controlling interests		(10)	(14)
Loss for the year		**(2.153)**	**(4.071)**
Basic and fully diluted loss per share (cent)	16	(8,25)	(15,63)
Basic and diluted loss per share (cent) from continuing operations	16	(7,63)	(11,28)

The notes on pages 43 to 134 form an integral part of the financial statements

INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Turnover		17.655	17.847
Interest income calculated using the effective interest method	5	13.853	12.192
Interest expense calculated using the effective interest method	6	(3.626)	(4.695)
Net interest income		10.227	7.497
Fee and commission income	7	2.798	2.541
Fee and commission expense	8	(310)	(257)
Net foreign exchange gains	9	884	1.288
Other income	10	120	1.826
Total net income		**13.719**	**12.895**
Staff costs	11	(6.504)	(5.782)
Other operating expenses	12	(3.104)	(3.998)
Depreciation	13	(716)	(620)
Profit before provisions for impairment		**3.395**	**2.495**
Provisions for impairment	13	(4.516)	(4.684)
Loss before tax		**(1.121)**	**(2.189)**
Tax	14	(673)	(669)
Loss for the year after tax		**(1.794)**	**(2.858)**
Basic and fully diluted loss per share (cent)	16	(6,91)	(11,01)

The notes on pages 43 to 134 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Loss for the year		**(2.153)**	**(4.071)**
Other comprehensive income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency reserve			
Exchange (losses)/gains arising on the retranslation of foreign subsidiary's financial statements		(200)	(216)
		(200)	(216)
Revaluation reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)	21	(134)	40
Transfer to the income statement on disposal	21	(106)	-
		(240)	40
Total OCI that may be reclassified in the income statement in subsequent periods		**(440)**	**(176)**
OCI items not to be reclassified in the income statement in subsequent periods			
Revaluation reserve (equity investments)			
Net gains on investments in equity instruments designated at FVOCI	20	18	369
Transfer to the income statement on disposal	20	-	2
		18	371
Property revaluation			
Gains from revaluation of premises		97	642
Tax		1	(135)
		98	507
Total OCI not to be reclassified in the income statement in subsequent periods		**116**	**878**
Other comprehensive (loss)/income for the year net of taxation		**(324)**	**702**
Total comprehensive loss for the year		**(2.477)**	**(3.369)**
Total comprehensive loss for the year attributable to:			
Owners of the Bank - continuing operations		(2.107)	(2.021)
Owners of the Bank - discontinued operations		(362)	(1.345)
		(2.469)	(3.366)
Non-controlling interests		(8)	(3)
Total comprehensive expenses for the year		**(2.477)**	**(3.369)**

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The notes on pages 43 to 134 form an integral part of the financial statements

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Loss for the year		**(1.794)**	**(2.858)**
Other comprehensive income (OCI)			
Items that are or may be reclassified subsequently to profit or loss			
Revaluation reserve (debt instruments)			
Net losses on investments in debt instruments measured at fair value through OCI (FVOCI)	21	(134)	40
Transfer to the income statement on disposal	21	(106)	-
Total OCI that may be reclassified in the income statement in subsequent periods		**(240)**	**40**
OCI items not to be reclassified in the income statement in subsequent periods			
Revaluation reserve (equity investments)			
Net gains on investments in equity instruments designated at FVOCI	20	2	300
Net losses from revaluation of subsidiaries		(504)	(1.375)
		(502)	(1.075)
Property revaluation			
Gains from revaluation of premises		-	642
Reversal of negative valuation (audit adjustment)		97	
Tax		1	(135)
		98	507
Total OCI not to be reclassified in the income statement in subsequent periods		**(404)**	**(568)**
Other comprehensive (loss)/income for the year net of taxation		**(644)**	**(528)**
Total comprehensive loss for the year		**(2.438)**	**(3.386)**

The notes on pages 43 to 134 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
ASSETS			
Cash and balances with central banks	17	201.997	96.853
Balances with other banks	17	29.770	119.452
Derivatives	18	128	-
Loans and advances	19	246.449	255.540
Investments in equities	20	996	978
Investments in debt securities	21	79.622	50.671
Assets of subsidiary company under voluntary wind up	24	4.026	7.538
Premises and equipment	25	6.456	6.622
Intangible assets	26	1.065	616
Receivables and other assets	27	16.628	5.752
Total assets		**587.137**	**544.022**
LIABILITIES			
Bank borrowings	28	4.013	2.001
Client deposits	29	515.990	480.638
Liabilities of subsidiary company under voluntary wind up	24	27	3.140
Deferred taxation	30	329	319
Accruals and other liabilities	31	25.521	10.674
Total liabilities		545.880	496.772
Loan capital	32	5.000	5.000
EQUITY			
Share capital	33	35.164	35.164
Share premium		11.211	11.211
Non-redeemable capital account		4.000	4.000
Reserves		(14.294)	(8.309)
Equity attributable to owners of the parent company		36.081	42.066
Non-controlling interests		176	184
Total equity		36.257	42.250
Total liabilities and equity		**587.137**	**544.022**
Contingent liabilities and commitments	35	74.867	63.186

These Consolidated Financial Statements have been approved and authorised for issue by the Management Body on 28 June 2019.

Mr. George Loizou	Chairman	**Mr. Costas Argyrides**	Chief Executive Officer
Mr. Andreas Loizou	Director	**Mrs. Stella Avraam**	Chief Financial Officer

The notes on pages 43 to 134 form an integral part of the financial statements

STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
ASSETS			
Cash and balances with central banks	17	201.997	96.853
Balances with other banks	17	29.634	119.357
Derivatives	18	128	-
Loans and advances	19	246.449	255.540
Investments in equities	20	673	671
Investments in debt securities	21	79.622	50.671
Subsidiary company under voluntary wind up	23	3.999	4.398
Investments in subsidiary companies	22	15.214	4.511
Premises and equipment	25	6.445	6.597
Intangible assets	26	1.055	616
Receivables and other assets	27	1.404	1.101
Total assets		**586.620**	**540.315**
LIABILITIES			
Bank borrowings	28	4.013	2.001
Client deposits	29	515.990	480.638
Deferred taxation	30	329	319
Accruals and other liabilities	31	25.194	10.309
Total liabilities		545.526	493.267
Loan capital	32	5.000	5.000
EQUITY			
Share capital	33	35.164	35.164
Share premium		11.211	11.211
Non-redeemable capital account		4.000	4.000
Reserves		(14.281)	(8.327)
Total equity		36.094	42.048
Total liabilities and equity		**586.620**	**540.315**
Contingent liabilities and commitments	35	74.867	63.186

These Financial Statements of the Bank have been approved and authorised for issue by the Management Body on 28 June 2019.

Mr. George Loizou Chairman

Mr. Costas Argyrides Chief Executive Officer

Mr. Andreas Loizou Director

Mrs. Stella Avraam Chief Financial Officer

The notes on pages 43 to 134 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

2018	Share capital €'000	Share premium €'000	Non redeemable capital account €'000	Non distributable reserve €'000	Revaluation reserve €'000	Foreign currency reserve €'000	Revenue reserve €'000	Total €'000	Non controlling interests €'000	Total €'000
	Attributable to the parent company's owners									
Balance 1 January 2018	35.164	11.211	4.000	90	1.990	(2.826)	(7.563)	42.066	184	42.250
Adjustment on initial application of IFRS 9 (note 4)	-	-	-	-	-	-	(3.516)	(3.516)	-	(3.516)
Restated balance 1 January 2018	35.164	11.211	4.000	90	1.990	(2.826)	(11.079)	38.550	184	38.734
Total comprehensive income/(loss) after taxation										
Loss for the year	-	-	-	-	-	-	(2.143)	(2.143)	(10)	(2.153)
Other comprehensive income/(loss)	-	-	-	-	(223)	(200)	97	(326)	2	(324)
Total comprehensive income	-	-	-	-	(223)	(200)	(2.046)	(2.469)	(8)	(2.477)
Transfer of excess depreciation on revaluation surplus	-	-	-	-	17	-	(17)	-	-	-
Balance 31 December 2018	**35.164**	**11.211**	**4.000**	**90**	**1.784**	**(3.026)**	**(13.142)**	**36.081**	**176**	**36.257**

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

Share capital increase in 2019

On 12 March 2019 an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. Details of the share capital increase are set out in note 33 to the financial statements.

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 at FVOCI and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 43 to 134 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

2017	Attributable to the parent company's owners									
	Share capital €'000	Share premium €'000	Non redeemable capital account €'000	Non distributable reserve €'000	Revaluation reserve €'000	Foreign currency reserve €'000	Revenue reserve €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2017	35.164	11.211	-	90	1.088	(2.610)	(3.402)	41.541	186	41.727
Total comprehensive income/(loss) after taxation										
Loss for the year	-	-	-	-	-	-	(4.057)	(4.057)	(14)	(4.071)
Other comprehensive income/(loss)	-	-	-	-	906	(216)	1	691	12	703
Total comprehensive income	-	-	-	-	906	(216)	(4.056)	(3.366)	(2)	(3.368)
Transfer of excess depreciation on revaluation surplus	-	-	-	-	(4)	-	4	-	-	-
Transactions with owners of the Bank										
Contributions and distributions										
New capital	-	-	4.000	-	-	-	-	4.000	-	4.000
Defence Tax on deemed dividend distribution	-	-	-	-	-	-	(109)	(109)	-	(109)
Total contributions and distributions	-	-	4.000	-	-	-	(109)	3.891	-	3.891
Balance 31 December 2017	**35.164**	**11.211**	**4.000**	**90**	**1.990**	**(2.826)**	**(7.563)**	**42.066**	**184**	**42.250**

Non-redeemable capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable "capital account" which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank's share capital, there is a commitment by four of the Bank's existing shareholders to acquire his rights to the funds in the said account.

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 at available for sale and revaluation of premises. The revaluation reserve is not distributable.

The notes on pages 43 to 134 form an integral part of the financial statements

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

2018	Share capital €'000	Share premium €'000	Non-redeemable capital account €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2018	35.164	11.211	4.000	(3.021)	(5.306)	42.048
Adjustment on initial application of IFRS 9 (note 4)	-	-	-	-	(3.516)	(3.516)
Restated balance 1 January 2018	35.164	11.211	4.000	(3.021)	(8.822)	38.532
Total comprehensive income/(loss) after taxation						
Loss for the year	-	-	-	-	(1.794)	(1.794)
Other comprehensive income	-	-	-	(741)	97	(644)
Total comprehensive income	-	-	-	(741)	(1.697)	(2.438)
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	17	(17)	-
Balance 31 December 2018	**35.164**	**11.211**	**4.000**	**(3.745)**	**(10.536)**	**36.094**

Non-redeemable Capital account

On 4 August 2017, an agreement was signed between the Bank and a prospective investor. As per the terms of the said agreement, an amount of €4 million was paid by the prospective investor in a non-redeemable “capital account” which could only be employed as common equity by the issue of share capital for the Bank, and in case the prospective investor did not participate in the Bank’s share capital, there is a commitment by four of the Bank’s existing shareholders to acquire his rights to the funds in the said account.

Share capital increase in 2019

On 12 March 2019 an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank’s Capital by €4,3 million was approved. On 22 March 2019 the Bank’s shareholders subscribed to an amount of €3,3 million towards the Bank’s capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. Details of the share capital increase are set out in note 33 to the financial statements.

Revaluation reserve

The revaluation reserve relates to the revaluation of investments at FVOCI and revaluation of premises. The revaluation reserve is not distributable.

2017	Share capital €'000	Share premium €'000	Non-redeemable capital account €'000	Revaluation reserve €'000	Revenue reserve €'000	Total €'000
Balance 1 January 2017	35.164	11.211	-	(2.489)	(2.345)	41.541
Total comprehensive income/(loss) after taxation						
Loss for the year	-	-	-	-	(2.858)	(2.858)
Other comprehensive income	-	-	-	(528)	-	(528)
Total comprehensive income	-	-	-	(528)	(2.858)	(3.386)
Transfer to revenue reserve excess depreciation on revalued premises net of deferred tax	-	-	-	(4)	4	-
Total comprehensive income	-	-	-	(4)	4	-
Transactions with owners of the Bank						
Contributions and distributions						
New capital	-	-	4.000	-	-	4.000
Defence tax on deemed dividend distribution	-	-	-	-	(107)	(107)
Total contributions and distributions	-	-	4.000	-	(107)	3.893
Balance 31 December 2017	35.164	11.211	4.000	(3.021)	(5.306)	42.048

The notes on pages 43 to 134 form an integral part of the financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Group loss for the year from continuing operations		(1.990)	(2.942)
Group loss for the year from discontinued operations		(163)	(1.129)
Adjustments for:			
Interest from debt securities	5	(855)	(536)
(Gain)/loss on disposal of premises and equipment	13	-	9
Depreciation of premises and equipment	13	447	431
Depreciation of intangible assets	13	283	203
Net foreign exchange gains		(849)	(1.267)
Impairment losses and provisions to cover credit risk	13	4.433	4.637
Tax	14	694	675
Cash flows from operating activities before changes in working capital and other items of the statement of financial position		2.000	81
Increase in balances with Central Banks		(455)	(229)
(Increase)/decrease in placements with other banks		(44)	2.820
Increase in loans and advances		(676)	(1.782)
Decrease in equity investments		-	30
Increase in client deposits		35.352	21.257
Increase in bank borrowings		2.012	2.001
Increase/(decrease) in working capital and other items of the statement of financial position		4.365	(3.616)
Net cash from operating activities before tax		42.554	20.562
Taxes and special contributions paid		(683)	(646)
Net cash from operating activities		41.871	19.916
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions of premises and equipment	25	(281)	(434)
Additions of intangible assets	26	(732)	(202)
Net (additions)/disposals/maturity of investments in debt and equity securities		(29.188)	(6.380)
Interest from debt securities	5	855	536
Proceeds from disposal of premises and equipment		-	-
Net cash used in investing activities		(29.346)	(6.480)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from non-redeemable capital account		-	4.000
Issue of loan capital		-	5.000
Net cash from financing activities		-	9.000
Net increase in cash and cash equivalents		12.525	22.436
Effect of exchange rate fluctuations on cash and cash equivalents		2.477	(7.462)
Cash and cash equivalents at the beginning of the year		210.885	195.911
Cash and cash equivalents at the end of the year	37	225.887	210.885

The notes on pages 43 to 134 form an integral part of the financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		(1.794)	(2.858)
Adjustments for:			
Income from investments in debt and equity securities	5	(855)	(536)
Loss on disposal of premises and equipment	13	-	9
Depreciation of premises and equipment	13	433	417
Depreciation of intangible assets	13	283	203
Net foreign exchange gains		(884)	(1.288)
Impairment losses and provisions to cover credit risk	13	4.516	4.684
Tax	14	673	669
Operating profit before working capital changes		2.372	1.300
Increase in balances with Central Banks		(455)	(229)
(Increase)/decrease in placements with other banks		(44)	2.820
Increase in loans and advances		(676)	(1.782)
Increase in equity investments		-	(20)
Increase in client deposits		35.352	21.257
Increase in bank borrowings		2.012	2.001
Increase/(decrease) in working capital and other items of the statement of financial position		3.920	(4.749)
Net cash from operating activities before tax		42.481	20.598
Taxes and special contributions paid		(661)	(640)
Net cash from operating activities		41.820	19.958
CASH FLOW FROM INVESTING ACTIVITIES			
Additions of premises and equipment	25	(280)	(434)
Additions of intangible assets	26	(722)	(202)
Net (additions)/disposals/maturity of investments in debt and equity securities		(29.188)	(6.380)
Interest from debt securities	5	855	536
Proceeds from disposal of premises and equipment		-	18
Net cash to investing activities		(29.335)	(6.462)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from non-redeemable capital account		-	4.000
Issue of loan capital		-	5.000
Net cash from financing activities		-	9.000
Net (decrease)/increase in cash and cash equivalents		12.485	22.496
Effect of exchange rate fluctuations on cash and cash equivalents		2.477	(7.462)
Cash and cash equivalents at the beginning of the year		210.790	195.756
Cash and cash equivalents at the end of the year	37	225.752	210.790

The notes on pages 43 to 134 form an integral part of the financial statements

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. INCORPORATION AND PRINCIPAL ACTIVITIES

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

The principal activities of the Bank, which remained unchanged from last year, are commercial banking operations.

The Russian subsidiary company, Joint Stock Company cdbbank, whose principal activities involved the provision of commercial banking operations is under voluntary wind up. The process of winding up the Russian subsidiary is expected to be completed by the third quarter of 2019. Details are set out in Notes 23 and 24 to financial statements.

The principal activities of the subsidiary company, Global Capital Securities and Financial Services Ltd, 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.

The consolidated financial statements of the Group are available at the registered office of the Cyprus Development Bank Public Company Ltd and on the Bank's website www.cdb.com.cy.

2. BASIS OF PREPARATION

2.1 Going concern

The Directors have made an assessment of the Group's ability to continue as a going concern for a period of 12 months from the date of approval of these financial statements. The conditions that existed during 2018, the developments up to the date of approval of these financial statements and Management's projections have been considered by the Directors in the going concern assessment and they believe that the Group and the Bank are taking all necessary measures to ensure their viability and the development of their business in the current economic environment.

The Directors, in making their assessment, have paid particular attention to the regulatory requirements relating to capital and liquidity, the financial performance of the Group and the risks emanating from the environment in which the Group operates and consider that the going concern principle is appropriate for the reasons set out below:

2.1.1 Funding and liquidity

The Group enjoys a strong liquidity position and is compliant with all the regulatory liquidity ratios. The LCR ratio stood at 253% at 31 December 2018 and is well above the minimum requirement of 100%. Based on the projections of the Management of the Group, it is expected that the Group will continue to maintain a strong liquidity position and will be compliant with minimum regulatory requirements.

2.1.2 Capital

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PREPARATION (continued)

2.1 Going concern (continued)

2.1.2 Capital

February 2017, in its Supervisory Review and Evaluation Process (SREP) for 2016, the Central Bank of Cyprus determined the additional capital requirements to be 5,2% of the Group's risk weighted assets, to be met by CET 1 capital. In addition to the total SREP capital requirements, the Group is also required to maintain a capital conservation buffer of 1,875% from 1 January 2018 increasing to 2,5% from 1 January 2019. Based on the above the Group was required to maintain on a consolidated basis, a total capital ratio of 15,075% in 2018, increasing to 15,70% from 1 January 2019.

As at 31 December 2018 the Group's total capital adequacy ratio stood at 13,95%. Over the first half of 2019 up to the date of approval of these financial statements, a number of actions have been implemented which have resulted to an overall capital ratio (OCR) of c.16,7%.

The Directors and Management of the Group closely monitor and manage its capital through actions that optimise capital usage. To this end, Management developed a Financial and Capital Plan (the 'Plan'), which was approved by the Management Body in March 2019. The main objectives of the Plan were to enhance the Group's capital adequacy through a rights issue and a number of management actions to ensure that it maintains sufficient resources and capital to support its current activities. In line with the Plan, the Group is expected to continue its de-risking strategy and efforts to successfully resolve the residual NPEs. The IFRS 9 impact on a fully phased-in basis is also considered within the Plan.

On 12 March 2019, an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019, the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019.

2018 was a loss making year for the Group, reporting a bottom-line loss of €2,2 million. This was attributed mainly to the efforts to de-risk its balance sheet and more specifically the resolution of legacy NPEs, the enhancement of its loan book quality and the voluntary winding-up of its Russian operations. The loss making situation is now reversing. Until 31 May 2019, the Group generated after tax profits of €3 million, arising from operating profitability, the successful disposal of REOs and the resolution of NPE cases. Furthermore, at 31 May 2019 its NPE ratio reduced to 42% while its coverage ratio increased to 52% compared to 52% and 38%, respectively in December 2017, while the process for the winding-up of the Russian operations is at the final stages and is expected to be completed in July, 2019.

Currently the Group is ahead of its Capital Plan with better than anticipated financial performance which may be attributed to an improved macroeconomic and legal environment regarding NPEs which facilitates the resolution of legacy assets as well as the lower than anticipated losses from discontinued operations. The combined effect of the 2019 capital increase and the profitability of the Group to this date, have contributed towards the improvement of the Group's overall capital adequacy ratio to c. 16,7%

In this context, Management believes that the Group will be in a position to meet its minimum regulatory requirements within the period of assessment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PREPARATION (continued)

2.2 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 2018.

2.3 Basis of measurement

The financial statements have been prepared on the historical cost basis, except from derivatives, investments classified at fair value through other comprehensive income and properties for own use which are measured at fair value. Stock of properties are measured at the lower of cost and net realisable value.

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

As from 1 January 2018, the Bank adopted all changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations.

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2018. Those which may be relevant to the Bank are set out below. The Bank does not plan to adopt these Standards early.

2.4.1 Standards and Interpretations adopted by the EU

The Group does not expect that the adoption of these standards, amendments and interpretations will have a material effect on the financial statements of the Group and of the Bank.

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

The amendments clarify that an entity applies IFRS 9 "Financial Instruments", including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture.

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

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. More specifically, it clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2 BASIS OF PREPARATION (continued)

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

2.4.1 Standards and Interpretations adopted by the EU (continued)

IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019)
In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". The amendments address the issue that under pre-amended IFRS 9, financial assets with such features would probably not meet the SPPI criterion and as such would be measured at fair value through profit or loss. The IASB believes that this would not be appropriate because measuring them at amortised cost provides useful information about the amount, timing and uncertainty of their future cash flows. Financial assets with these prepayment features can therefore be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The final amendments also contain a clarification in the accounting for a modification or exchange of a financial liability measured at amortised cost that does not result in the derecognition of the financial liability. Based on the clarification, an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange.

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

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

- IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
- IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.
- IFRS 11 "Joint Arrangements": the amendments clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2 BASIS OF PREPARATION (continued)

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

2.4.1 Standards and Interpretations adopted by the EU (continued)

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

IFRS 16 "Leases" has an effective date for annual periods beginning or on after 1 January 2019 and replaces existing leases guidance including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 "Leases" and includes all contracts that convey the right to use an asset for a period of time in exchange for consideration.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

The Group is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. The initial recognition of the right of use asset and lease liability will be based on the discounted payments required under the lease, taking into account the lease term as determined by the new standard. Also, all lease liabilities are to be measured with reference to an estimate of the lease term, which includes optional lease periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, the Group will continue to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As permitted by the Standard, the Group intends to apply the modified retrospective approach, which means that it will apply the standard without restatement of comparatives where the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings. In addition, the Group intends to take advantage of the short-term lease exemption under IFRS 16 for those contracts whose lease term as of the date of initial application of the standard is 12 months or less. For those contracts that contain options to terminate or extend the lease term, the Group will consider its intention as of the end of year in determining the lease term.

The expected impact that the application of IFRS 16 will have on the financial statements of the Group is yet to be finalised. The assessment is expected to result in an increase of assets and financial liabilities with no material impact on retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2 BASIS OF PREPARATION (continued)

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

2.4.1 Standards and Interpretations adopted by the EU (continued)

IAS 19 (Amendments) "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019)
In February 2018, the IASB issued amendments to the guidance in IAS 19 "Employee Benefits", in connection with accounting for planned amendments, curtailments and settlements.

2.4.2 Standards and Interpretations not adopted by the EU

The Group does not expect that the adoption of these standards, amendments and interpretations will have a material effect on the financial statements of the Group and of the Bank.

"Amendments to References to the Conceptual Framework in IFRS Standards" (effective for annual periods beginning on or after 1 January 2020)
In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised "Conceptual Framework for Financial Reporting" (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework's principles have implications for how and when assets and liabilities are recognised and derecognized in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the "practical ability" approach to liabilities". To assist companies with the transition, the IASB issued a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards". This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements

Amendments to IFRS 3 "Business Combinations" (effective for annual periods beginning on or after 1 January 2020)
The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.

Amendments to IAS 1: "Presentation of financial statements" and IAS 8: "Definition of Material" (effective for annual periods beginning on or after 1 January 2020)
In October 2018, the IASB issued the 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments clarify the definition of material and how it should be applied, stating that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PREPARATION (continued)

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

2.4.2 Standards and Interpretations not adopted by the EU (continued)

Amendment in IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.

2.4.3 Recently adopted IFRSs and Interpretations

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018)

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Group did not early adopt any of IFRS 9 requirements in the previous periods. The impact on the Group from the implementation of the IFRS 9 is presented in note 4 to the financial statements.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018)

IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognise and replaced existing revenue recognition guidance, including IAS 18 ‘Revenue’, IAS 11 ‘Construction Contracts’ and IFRIC 13 ‘Customer Loyalty Programs’. IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PREPARATION (continued)

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

2.4.3 Recently adopted IFRSs and Interpretations (continued)

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018)
The interpretation clarifies how to determine the "date of transaction" for the purpose of determining the exchange rate to be used on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue). IFRIC 22 specifies that the transaction date is the date on which the entity initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation did not have a material impact on the financial statements of the Group.

2.5 Fair value of financial assets and liabilities

The Group and the Bank have applied the new definition of fair value as set out in note 34. The change had no significant impact on the measurements of the Group's and the Bank's assets and liabilities, but the Group and the Bank have included new disclosures in the financial statements, which are required under IFRS 13.

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

Level 1: financial 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.

2.6 Functional and presentation currency

The financial statements of the Group and of the Bank are for the year ended 31 December 2018 and are presented in Euro (€), which is the functional currency of the Bank and its subsidiaries in Cyprus. The functional currency of the foreign subsidiary held for sale is Russian Roubles.

2.7 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 reported amounts of assets, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. BASIS OF PREPARATION (continued)

2.7 Use of estimates and judgments (continued)

Estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The accounting policies which involve significant estimates and judgments are set out under note 3.

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 Bank, are stated below.

3.1 Consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company, and of its subsidiary companies, 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.

3.2 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.

3.3 Turnover

The Group's and the Bank'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.

3.4 Interest income and interest expense

Policy applicable from 1 January 2018

The Group calculates interest income by applying the effective interest rate (EIR) to the gross carrying amount of financial assets, unless the asset is credit-impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Interest income and interest expense (continued)

Policy applicable from 1 January 2018 (continued)

When a financial asset becomes credit-impaired and is therefore classified as Stage 3, interest income is calculated by applying the EIR to the amortised cost of the financial asset, being the gross carrying amount of the financial asset less any loss allowance. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount. In such cases, the Group reverses the unwinding of the discount on the expected credit losses (ECL) through the 'Provisions for impairment" line in the Income Statement.

For purchased or originated credit impaired (POCI) financial assets, interest income is recognised by applying a credit adjusted EIR (CAEIR) on the amortised cost of the financial asset.

Interest expense on financial liabilities held at amortised cost is calculated using the EIR method which allocates interest over the expected life of the financial liabilities.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts though the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Policy applicable before 1 January 2018

Interest income is recognised in the income statement using the effective interest rate method. Interest income on impaired loans and advances (up to the amount of the total increase of impairment amount) is suspended and included in the accumulated impairment losses on the value of loans and advances.

Interest expense on financial liabilities held at amortised cost is calculated using the EIR method which allocates interest over the expected life of the financial liabilities.

3.5 Fee and commission income and expense

The Group applies the IFRS 15, "Revenue from Contracts with Customers" five-step revenue recognition model to recognise commissions and fee income, under which income is recognised when control of goods and services is transferred, hence the contractual performance obligations to the customer has been satisfied.

As a first step, the Group identifies the contract with the customer and subsequently the performance obligation. The amount of income is measured on the basis of the contractually agreed transaction price and is allocated to the performance obligations defined in the contract. Income is recognised in profit or loss when the identified performance obligation has been satisfied.

Fee and commission expense is recognised in the income statement on an accruals basis, as the related services are performed.

3.6 Dividend

Dividend income is recognised when the right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7 Profit/(loss) from disposal of stock of property

Net profit/(loss) on disposal of stock of property is recognised in the income statement when the buyer accepts delivery and the control of property is transferred to the buyer.

3.8 Retirement benefits to staff

The Bank operates a defined contributions plan for its permanent employees. This plan provides for employer contributions of 9% (2017: 9%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

3.9 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. Taxation is recognised in the income statement unless it relates to items recognised directly in equity or in the statement of comprehensive income. Tax assets and liabilities are offset if they relate to taxes imposed by the same tax authority provided it allows such settlements and provided the intention of the Group is to either settle the net amount or realise the asset and settle the obligation simultaneously.

3.10 Special Levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2017", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31 December of the previous year for the quarter ending on 31 March, on 31 March of the same year for the quarter ending on 30 June, on 30 June of the same year for the quarter ending on 30 September and on 30 September of the same year for the quarter ending on 31 December. Based on an amendment to the Law effective as from 6 October 2017, an amount corresponding to the annual contribution of each credit institution to the Resolution Fund or to the Single Resolution Fund as the case may be, is deducted from the balance of special levy payable, up to the maximum amount of special levy for the same year.

3.11 Financial instruments

Policy applicable from 1 January 2018

The Group applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

Policy applicable from 1 January 2018

i. Classification

Business model assessment

The Group classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories:

- amortised cost;
- fair value through other comprehensive income; or
- fair value through profit or loss.

The business model assessment determines how the Group manages a group of assets to generate cash flows. That is, whether the Group's objective is solely to collect contractual cash flows from the assets, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which are managed similarly rather than at an individual instruments level.

Accordingly, in making the above assessment, the Group will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

ii. Measurement categories

Financial Assets measured at Amortised Cost (AC)

The Group classifies and measures a financial asset at AC only if both of the following conditions are met and is not designated as a FVTPL:

a) the financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model); and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets that meet these criteria are measured initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortised cost, using the EIR method. Interest income, realised gains and losses on de-recognition and changes in expected credit losses from assets classified at AC, are included in the income statement.

The classification relates to cash and balances with Central Bank, placements with other banks and loans and advances to customers that pass the SPPI test.

Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI)

The Group classifies and measures a financial asset at FVOCI only if both of the following conditions are met and is not designated as a FVTPL:

a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model); and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

Policy applicable from 1 January 2018 (continued)

ii. Measurement categories (continued)

Financial Assets measured at Fair Value through Other Comprehensive Income (FVOCI) (continued)

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition FVOCI debt instruments are re-measured at fair value through OCI except for interest income, related foreign exchange gains or losses and expected credit losses which are recognised in the income statement. Cumulative gains and losses previously recognised in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

The Group may make an irrevocable election to designate an equity instrument that is not held for trading at FVOCI. This designation, if elected, is made at initial recognition and on an instrument-by-instrument basis. Gains and losses on these instruments, including when derecognised, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

Financial Assets measured at Fair Value through Profit and Loss (FVTPL)

A financial asset that has been originated, acquired or incurred principally for the purpose of trading or that is not managed within a "hold to collect" or a "hold to collect and sell" business model shall be measured at FVTPL. Additionally, instruments for which the contractual cash flows do not meet the SPPI assessment must be measured at FVTPL even if they are managed within a business model whose objective is "hold to collect" or "hold to collect and sell".

Upon subsequent measurement of FVTPL a gain or loss on financial asset shall be recognised in profit or loss.

Derivatives

Derivatives include mainly forward exchange rate contracts and currency swaps. Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Financial liabilities

Financial liabilities include deposits by banks, customer deposits and other customer accounts. Financial liabilities are measured at amortised cost using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

Policy applicable from 1 January 2018 (continued)

iii. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Policy applicable before 1 January 2018

i. Classification

The Group classifies its financial assets that comprise of balances with Central Banks, placements with other banks, loans and advances to customers, investments in debt securities and investment in equity securities, under the following categories. Financial assets are classified in these categories upon their initial recognition based on their characteristics and the purpose for which they were acquired.
The Group classifies its financial assets in the following IAS 39 categories:

- held-to-maturity financial assets;
- loans and receivables;
- available-for-sale financial assets;
- at fair value through profit or loss.

Management determines the classification of its financial instruments at initial recognition.

Held-to-maturity investments

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and they do not meet the loans and receivables definition. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

At the beginning of the year 2017 the Group classified debt securities as held-to-maturity but following the sale of a significant amount of assets under this category the entire category was reclassified as available-for-sale.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Cash and balances with Central Banks, placements with other banks and loans and advances to customers are classified under this category. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method less provisions for impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11 Financial instruments (continued)

Policy applicable before 1 January 2018

i. Classification (continued)

Available-for-sale financial assets

Available for sale investments are financial assets that are intended to be held for an indefinite period of time or may be sold in response to liquidity requirements or changes in market risks (interest rates, exchange rates or prices).

Debt securities are classified under the available-for-sale category.

Financial assets at fair value through profit or loss

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

The Group does not classify any financial asset at fair value through profit or loss.

ii. Measurement

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

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in income statement. However, interest calculated using the effective interest rate method is recognised in the income statement.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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

iii. Derecognition

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.

The Group derecognises a financial liability when its contractual obligation is discharged, cancelled or expired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets

Policy applicable from 1 January 2018

IFRS 9 replaces the 'incurred loss' model under IAS 39 with a forward-looking 'expected credit loss' (ECL) model. Under the new forward looking approach the estimation of ECL requires more judgement, estimates, and assumptions in considering information for current as well as future events and conditions.

The new impairment model applies to financial assets that are not measured at FVTPL including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Under IFRS 9 no impairment losses need to be recognised on equity investments.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month ECL or lifetime ECL. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). IFRS 9 requires the classification of facilities/customers in three stages, according to the increases in credit risk level, considering certain criteria:

- Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition. The Group recognises a credit loss allowance at an amount equal to 12 month expected credit losses.
- Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit impaired. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.
- Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit impaired. The Bank aligned Stage 3 classification with the NPE classification, consistent with the definition used for internal credit risk management purposes. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Upon initial recognition of instruments in scope of the new impairment principles, the Group will record a loss allowance equal to 12-month ECL, being the ECL that results from default events that are possible within the next twelve months unless assets are considered as Purchased or originated as Credit Impaired (POCI). When the criteria for stage 2 classification are no longer met, and the financial asset is not credit impaired, it will be reclassified to stage 1. In addition, subsequent transfers from stage 3 to stage 2 will take place when the financial asset ceases to be credit impaired as defined further below.

The loss allowance for POCI financial assets will always be measured at an amount equal to lifetime ECL. POCI financial assets include assets purchased at a deep discount and substantially modified assets arising from de-recognition of the original asset that are considered originated credit impaired. POCI financial assets remain a separate category until derecognition and are classified either as stage 3 or stage 2. For POCI financial assets, cumulative changes in lifetime ECLs since initial recognition are recognised in the loss allowance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Interest revenue recognition

The Group will recognise interest income of financial assets at stage 1 or 2, by applying the effective interest rate (EIR) on their gross carrying amount, while for financial assets at stage 3 by applying EIR on their net carrying amount.

Significant increase in credit risk

As noted above financial assets that experience a significant increase in credit risk since initial recognition will be classified under stage 2 and the loss allowance calculation will change from 12 month ECLs to lifetime ECLs. In assessing whether a financial asset has experienced a significant increase in credit risk since initial recognition, the Group uses a combination of qualitative and backstop criteria including:

- Previous arrears over 30 days within the last 12 months.
- Actual or expected forbearance measures, as per the EBA definition.
- Individual assessment of significant increase in credit risk for significant exposures to ensure that the following indicators are taken into consideration:
  - ✓ Actual or expected significant change in operating results of the borrower;
  - ✓ Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
  - ✓ Significant change in collateral value which is expected to increase risk of default;
  - ✓ Early warning signs of cashflow/liquidity problems such as delay in servicing trade creditors.

Backstop

As required by IFRS 9, the Group considers as a backstop criterion that a significant increase in credit risk occurs when contractual payments are more than 30 days past due (past due materiality is applied). The materiality levels applied are set in accordance with the CBC Directives.

Significant increase in credit risk for financial instruments other than loans and advances to customers

IFRS 9 low credit risk exception has been adopted by the Group for debt security instruments, balances with banks and balances with central banks that are assigned an investment grade rating by an external credit rating agency. For these exposures the Group considers that significant deterioration in credit risk has occurred in the event of two notches or more downgrade of the credit rating at initial recognition (unless the credit rating remains within the investment grade category).

Credit-impaired exposures

As noted above credit-impaired exposures are allocated to stage 3 and lifetime ECLs are estimated. The Group considers as credit-impaired and hence in default all non-performing exposures (NPE) as per regulatory guidance. According to the European Banking Authority (EBA) standards and European Central Bank's (ECB) Guidance to Banks on NPE of March 2017, NPEs are defined as those exposures that satisfy one of the following conditions:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Credit impaired exposures (continued)

- The borrower is assessed as unlikely to pay its credit obligations in full without the realisation of the collateral, regardless of the existence of any past due amount or of the number of days past due.
- Defaulted or impaired exposures as per the approach provided in the Capital Requirement Regulation (CRR), which would also trigger a default under specific credit adjustment, distress restructuring and obligor bankruptcy.
- Material exposures as set by the Central Bank of Cyprus, which are more than 90 days past due.
- Performing forborne exposures under probation for which additional forbearance measures are extended.
- Performing forborne exposures under probation that present more than 30 days past due within the probation period.

When the exit criteria from the NPE status defined in the EBA standards are met and the exposure ceases to be an NPE, it is transferred out of stage 3. At such time if the conditions for stage 2 classification are met the exposure is transferred to stage 2 otherwise it is classified as stage 1.

Debt Securities, loans and advances to banks and balances with central banks

Debt Securities, loans and advances to banks and balances with central banks are considered defaulted and transferred to stage 3 if the issuers have failed to pay either interest or principal for a period of 90 consecutive days. In addition, a number of other criteria are considered to determine whether there has been a significant deterioration that could result in unlikeliness to pay.

Measurement of expected credit losses

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

Measurement of expected credit losses (continued)

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

ECLs on financial guarantee contracts are estimated as the difference between the expected payments to reimburse the holder of the guarantee less any amounts that the Group expects to recover.

The Group calculates ECLs either on an individual basis or a collective basis depending on the nature of the underlying portfolio of exposures. ECLs on individually large credit-impaired loans, above pre-defined materiality thresholds set in accordance with the Group's risk management policy are measured individually. This incorporates borrower and collateral specific information, collective historical experience of losses and forward-looking macroeconomic information. All customer exposures that are not individually assessed, are assessed on a collective basis. For this purpose, the exposures are grouped into segments with similar risk characteristics/ behaviour.

ECL Key inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF). Generally, the Group derives these parameters from internally developed statistical models and observed point-in-time and historical data. ECLs are calculated based on three-weighted scenarios.

The PD represents the likelihood of a borrower defaulting on its financial obligations either on the next twelve months or over the remaining lifetime. The group calculates the PDs using internal statistical models for different segments. The estimation of PDs is based on point-in-time unbiased PDs that are derived from TTC PDs through the application of a scaling factor that reflects the current economic conditions and incorporates forward-looking information and macroeconomic inputs. For certain segments the PDs are estimated at the debtor level while for retail portfolios are estimated at the facility level.

EAD represents the exposure that the Group expects to be owed at the time of default. In estimating the EAD of each exposure at each point in time for the period over which the ECL will be estimated, historical observations and forward looking forecasts to reflect payments or overpayments of principal and interest and any potential drawdowns on lending commitments are utilised. EAD estimation is different for the following categories: term exposures, revolving exposures, credit-impaired exposures and guarantees and trade finance products. For term exposures the contractual term of the exposure is considered to reflect repayments of principal and interest. For revolving exposures the projected EAD is the carrying amount plus the credit conversion factor applied to the undrawn amount. For CCFs the factors provided in European regulation 575/2013 are used. For credit -impaired exposures, the EAD is

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Policy applicable from 1 January 2018 (continued)

ECL Key inputs (continued)

equal to the on-balance sheet amount as at the reporting date. For guarantees and trade finance products the CCFs for unutilised commitments are utilised.

LGD represents the Group's expectation of the extent of loss if a default occurs at a given time and is the difference between the contractual cash flows due and those that the Group expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The LGD model structure considers two outcomes in the event of default: curing and non-curing. Probability of curing is estimated based on historical observations for different segments based on time in default and risk status. In the event of non-curing LGD estimates are based on recovery expectation under different recovery strategies such as cash recoveries from sources other than collateral realisations and realisation of collateral. In collectively assessed exposures a minimum LGD is imposed.

Forward-looking inputs

The Group incorporates forward-looking information when measuring ECL. This involves the use of external forecasts to formulate both a 'baseline' view of key economic variables (e.g. GDP Growth, unemployment, house prices) as well as two additional economic scenarios representing a pessimistic and an optimistic macroeconomic outcome to estimate ECLs by linking economic variables to default and loss rates. For PDs this is achieved through regression equations while for LGDs forward-looking information is factored in through the evolution of property indices. The ECLs that result under each scenario are weighted to achieve an unbiased estimate of ECL. The weights applied are 50% for the baseline scenario and 25% for the pessimistic and optimistic scenarios, respectively.

The table below shows the macroeconomic variables for each scenario and the respective scenario weights:

Cyprus Economy – Macroeconomic Parameters

Scenarios			2019	2020	2021	Probability weight %
	Real GDP change	%	2,81	2,11	1,36	
Optimistic	Unemployment rate	%	7,32	7,04	6,98	25%
	House Price index change	%	3,88	2,92	2,39	
	Real GDP change	%	1,63	1,33	1,14	
	Unemployment rate	%	7,72	7,55	7,43	50%
Baseline	House Price index change	%	2,77	1,56	1,70	
	Real GDP change	%	-2,76	-2,48	1,77	
	Unemployment rate	%	10,03	12,42	12,89	25%
Pessimistic	House Price index change	%	-0,18	-2,82	-0,45	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Impairment of financial assets (continued)

Policy applicable before 1 January 2018

Loans and advances to customers

At the end of each reporting period the Group assesses whether there is objective evidence that loans and receivables are impaired.

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 of the agreement, 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 and collective level. Loans and advances are individually assessed for specific impairment. Those found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not reported yet (IBNR).

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 applies probabilities of default and loss given defaults, based on management's judgment of the current economic and credit conditions. The emergence period which indicates the approximate time required for non-performance to be identified is also considered in the calculation of collective impairment. 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 through income statement, only when events and factors make the collection of doubtful amounts feasible.

Available-for-sale investments

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Offsetting

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.

3.14 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.

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 Bank's separate financial statements at their assessed fair value. The Group designates investments in subsidiary companies at FVOCI. Any gains or losses on subsidiary companies, are recorded in OCI and are not subsequently reclassified to the income statement upon derecognition. Dividends received are recorded in the income statement.

3.15 Cash and cash equivalents

Cash and cash equivalents consist of cash, non-obligatory balances with central banks, deposits with banks and other securities that are highly liquid and readily convertible into known amounts of cash or are repayable within three months from the date of their acquisition.

3.16 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16 Premises and equipment (continued)

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 transferred to revenue reserve.

3.17 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.

3.18 Stock of properties

The Bank in its normal course of business acquires properties in exchange of debt, which are held either directly or by special purpose entities (SPEs) set up and controlled by the Bank for the sole purpose of managing these properties with an intention to be disposed of.

Stock of properties is recognised in the statement of financial position and is included under “receivables and other assets”, reflecting the substance of these transactions. The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of properties is measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the income statement in the period in which the write down occurs. Profit or loss from disposal of stock of properties held for sale, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

3.19 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

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20 Loan capital

Loan capital issued by the Bank is initially recorded at fair value, which equals the amount received less transaction costs directly attributable to the issue, and subsequently is measured at its amortised cost using the effective interest rate method.

3.21 Share capital

The Bank's own shares are stated as equity.

3.22 Derivatives

Derivatives consist of forward exchange rate contracts and foreign exchange swaps.

Derivatives are initially recorded at cost and then revalued at their assessed fair value. Changes in the fair value of derivatives are recognised in the income statement. The assessed fair value is estimated on the basis of current prices and of discounted cash flows. Derivatives are classified as assets when their value is positive and as liabilities when their fair value is negative.

All derivatives are recorded as trading derivatives and adjustments to their assessed fair value are included in the income statement under net foreign exchange gains.

3.23 Guarantees

Guarantees issued comprise performance and tender guarantees and other letters of guarantee given to clients and represent irrevocable obligations of the Bank 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.

3.24 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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25 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 or loss from discontinued operations includes the net total of operating profit and loss after tax from discontinued operations.

3.26 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 Bank 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.

The Group classifies as held-for-sale the Russian subsidiary JSC cdbbank under voluntary wind-up.

3.27 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

For the year ended 31 December 2018

4. TRANSITION TO IFRS 9 – IMPACT ASSESSMENT AND ANALYSIS

In July 2014, the IASB issued the final version of IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. It replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets, and hedge accounting as detailed further below.

In October 2017, the IASB issued 'Prepayment Features with Negative Compensation' (amendments to IFRS 9) effective for annual periods beginning on or after 1 January 2019 but not yet endorsed by the EU. The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortised cost or at fair value through other comprehensive income (FVOCI), depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). The amendment also confirms the modification accounting of financial liabilities under IFRS 9. Adoption of the amendment is not expected to impact the financial statements.

The Group adopted IFRS 9 as issued in July 2014 initially on 1 January 2018.

Comparative information on transition

The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial adoption. As permitted by IFRS 9 the Group has not restated comparative periods. The impact on the adoption date on 1 January 2018 which amounted to €3.516 thousand, was therefore recognised through the consolidated statement of changes in equity in the opening retained earnings and other components of equity, as appropriate. As permitted by IFRS 9, in the financial statements the Group's 2017 comparative figures have not been restated but rather presented on an IAS39 basis and is therefore not comparable to the information presented for 2018 under IFRS 9.

Regulatory capital transitional arrangements

The Group has elected to apply the provisions of EU Regulation 2017/2395 for gradual phase-in over a five year period of the impact on regulatory capital arising from the difference between the impairment amount as calculated on initial application of IFRS 9 with the amount recognised as at 31 December 2017 in accordance with IAS 39. The amount to be added back to regulatory own funds each year will decrease based on weighting factors specified in the said EU Regulation. For the year 2018 the impact on the capital ratios will be 5% of the aforementioned difference in impairment amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. TRANSITION TO IFRS 9 – IMPACT ASSESSMENT AND ANALYSIS (continued)

Impact assessment

For the purpose of the transition to IFRS 9, the Group carried out a business model assessment across various portfolios and a review of the contractual terms (SPPI review) for its loans and advances and debt instruments portfolios to determine any potential changes to the classification and measurement. The business model assessment and the SPPI review did not result in any significant changes compared to how financial assets were measured under IAS 39. In particular:

- Loans and advances to banks and customers that were classified as loans and receivables and measured at amortised cost under IAS 39, are also measured at amortised cost under IFRS 9;
- Debt securities classified as available for sale under IAS 39, are measured at FVOCI;
- Held to maturity investment securities were measured at amortised cost under IAS 39, are measured at amortised cost or FVOCI depending on the business model within which they are held;
- Trading and derivative assets that were measured at FVTPL under IAS 39 are measured at FVTPL under IFRS 9;
- Equity securities classified as available for sale under IAS 39 are measured at FVTPL under IFRS 9.

(a) Classification and measurement of financial instruments

On adoption of the standard on 1 January 2018, the impact of the changes related to the classification and measurement of financial assets held as at 1 January 2018 is analysed as follows:

	Note	Classification under IAS 39	New classification under IFRS 9	The Group Carrying amount IAS 39 €'000	The Group New carrying amount IFRS 9 (before ECLs) €'000	The Bank Carrying amount IAS 39 €'000	The Bank New carrying amount IFRS 9 (before ECLs) €'000
Financial assets							
Cash and balances with Central Banks	17	Loans and receivables	Amortised cost	96.853	96.853	96.853	96.853
Balances with other banks	17	Loans and receivables	Amortised cost	119.452	119.452	119.357	119.357
Loans and advances	19	Loans and receivables	Amortised cost	255.540	255.540	255.540	255.540
Equity investments	20	AFS**	FVOCI*	978	978	671	671
Debt securities	21	AFS**	FVOCI*	50.671	50.671	50.671	50.671
Financial Liabilities							
Provision for financial guarantees and commitments	31	n/a	n/a	310	310	310	310

*FVOCI: Fair value through other comprehensive income
** AFS: Available for Sale
***FVTPL: Fair value through profit and loss

There were no other changes to the classification and measurement of financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. TRANSITION TO IFRS 9 – IMPACT ASSESSMENT AND ANALYSIS (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

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

THE GROUP

		IAS 39 Carrying amount 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
		€'000	€'000	€'000	€'000
Fair Value through profit or loss (FVTPL)					
DERIVATIVES					
Opening balance under IAS 39		-	-	-	-
Closing balance under IFRS 9		-	-	-	-
Total financial assets measured at FVTPL		-	-	-	-
Available for sale (AFS)					
EQUITY INVESTMENTS					
Opening balance under IAS 39		978	-	-	-
Subtraction: To FVOCI	(A)	-	(978)	-	-
Closing balance under IFRS 9		-	-	-	-
DEBT SECURITIES					
Opening balance under IAS 39		50.671		-	-
Subtraction: To FVOCI	(B)	-	(50.671)	-	-
Closing balance under IFRS 9		-	-	-	-
Total financial assets classified as AFS		**51.649**	**(51.649)**	**-**	-
Fair Value through Other Comprehensive Income (FVOCI)					
EQUITY INVESTMENTS					
Opening balance under IAS 39		-	-	-	-
Addition: From AFS	(A)	-	978	-	-
Closing balance under IFRS 9		-	-	-	978
DEBT SECURITIES					
Opening balance under IAS 39		-	-	-	-
Addition: From AFS	(B)	-	50.671	-	-
Remeasurement: ECL Allowance		-	-	(70)	-
Closing balance under IFRS 9		-	-	-	50.601
Total financial assets measured at FVOCI		-	**51.649**	**(70)**	**51.579**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. TRANSITION TO IFRS 9 – IMPACT ASSESSMENT AND ANALYSIS (continued)

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	IAS 39 Carrying amount 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
	€'000	€'000	€'000	€'000
Loans and receivables				
CASH AND BALANCES WITH CENTRAL BANKS				
Opening balance under IAS 39	96.853	-	-	-
Remeasurement: ECL Allowance	-	-	-	-
Closing balance under IFRS 9	-	-	-	96.853
BALANCES WITH OTHER BANKS				
Opening balance under IAS 39	119.452	-	-	-
Remeasurement: ECL Allowance	-	-	(39)	-
Closing balance under IFRS 9	-	-	-	119.413
LOANS AND ADVANCES				
Opening balance under IAS 39	255.540	-	-	-
Remeasurement: ECL Allowance	-	-	(3.155)	-
Closing balance under IFRS 9	-	-	-	252.385
Total Loans and receivables	**471.845**	-	**(3.194)**	**468.651**
PROVISIONS TO COVER CREDIT RISK RESULTING FROM COMMITMENTS AND GUARANTEES				
Opening balance under IAS 39	(310)	-	-	-
Remeasurement: ECL Allowance	-	-	(252)	-
Closing balance under IFRS 9	-	-	-	(562)
TOTAL	**523.184**	-	**(3.516)**	**519.668**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. TRANSITION TO IFRS 9 – IMPACT ASSESSMENT AND ANALYSIS (continued)

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (continued)

	Carrying Amount 2017 €'000	IFRS9 Carrying Amount 1 January 2018 €'000
Cash and balances with Central Banks	96.853	96.853
Balances with other banks	119.452	119.412
Loans and advances	255.540	252.385
Equity investments	978	978
Debt securities	50.671	50.600
Derivatives	128	128
Financial guarantees and loan commitments issued	310	562

The total re-measurement loss of €3,5m which was recognised in opening reserves, consists of an increase in allowances. There was no remeasurement gain or loss from reclassifications from IAS 39 to IFRS 9.

The Group's accounting policies on the classification and measurement and impairment under IFRS 9 (after 1 January 2018) and IAS 39 (before 1 January 2018) are set out in note 3 to the financial statements.

5. INTEREST INCOME

	THE GROUP		THE BANK	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Loans and advances at amortised cost	11.974	10.584	12.273	10.711
Balances with banks at amortised cost	726	947	725	945
Debt securities at FVOCI	855	536	855	536
	13.555	12.067	13.853	12.192

Interest from loans and advances includes interest on net carrying amount of impaired loans and advances amounting to €1.957 thousand (31 December 2017: €869 thousand).

In 2018 the Bank revised its policy for interest recognition to be in line with IFRS 9. From 1 January 2018 when a financial asset becomes credit impaired then interest is recognised on the net carrying amount of the financial asset whereas until 31 December 2017 the Bank suspended all interest on impaired loans, up to the amount of the total increase of impairment charge. The policy applicable for interest recognition is disclosed in note 3 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. INTEREST EXPENSE

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Bank borrowings	13	-	13	-
Client deposits	3.103	4.491	3.103	4.491
Balances with banks	513	209	510	204
	3.629	4.700	3.626	4.695

7. FEE AND COMMISSION INCOME

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Credit related fees and commissions	717	546	717	546
Fund transfer commissions	1.042	1.116	1.042	1.116
Other banking fees and commissions	1.470	1.267	1.039	879
	3.229	2.929	2.798	2.541

8. FEE AND COMMISSION EXPENSE

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Fund transfer fees and commissions	310	257	310	257
Brokerage fees and commissions	24	25	-	-
	334	282	310	257

9. 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.

10. OTHER INCOME

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Profit from disposal of debt securities at FVOCI	54	-	54	-
Profit from disposal of held-to-maturity investments	-	1.799	-	1.799
Other income	290	114	66	27
	344	1.913	120	1.826

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

11. STAFF COSTS

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Salaries	5.455	5.015	5.193	4.777
Employer's contributions	656	610	649	604
Other staff benefits	11	8	11	8
Cost of retirement benefits	421	393	421	393
Termination benefits	230	-	230	-
	6.773	6.026	6.504	5.782

The number of persons employed by the Group as at 31 December 2018 was 153 (31 December 2017: 174) and by the Bank 134 (31 December 2017: 129).

Retirement benefits

The Bank operates a defined contribution plan for its permanent employees. This plan provides for employer contributions of 9% (2017: 9%) and employee contributions of 3% - 10% of the employees' gross salaries. The Bank's contributions are charged to the income statement. The plan is managed by a Committee appointed by the members.

12. OTHER OPERATING EXPENSES

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Impairment losses on stock of properties (note 27)	-	94	-	-
Central Bank of Cyprus administrative fine	-	608	-	608
Consultancy and legal fees	333	271	314	263
Regulatory fees	310	281	310	281
Operating leases of buildings	288	276	286	276
Repairs and maintenance	670	624	654	618
Marketing, subscriptions and donations	305	363	305	363
Utilities	290	251	276	237
Other operating expenses	1.178	1.396	959	1.352
	3.374	4.164	3.104	3.998

Other operating expenses for 2017 include a provision of €608 thousand (after a discount of 15% due to early repayment) that relates to an administrative fine issued by the Central Bank of Cyprus on 21 May 2018, relating to controls omissions and weaknesses in the implementation of due diligence measures and customer identification procedures, as part of the Bank's anti-money laundering and know-your-customer framework. The shortcomings were identified during two CBC inspections carried out at the Bank in March 2014 and May 2016.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. OTHER OPERATING EXPENSES (continued)

The Bank has already made significant progress in rectifying these issues, by taking all necessary steps to upgrade and improve its internal processes and policies. To that end, and towards full transparency and alignment with supervisory processes, the Bank applies best practices based on regulatory standards.

13. LOSS BEFORE TAX

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

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Directors' emoluments:				
Fees (note 41)	207	249	207	249
Expenses	3	50	3	50
Independent auditors' remuneration:				
Audit of annual accounts	94	63	71	44
Audit fees previous years	8	-	8	-
Other non-audit services	71	69	71	69
Other assurance services	-	19	-	17
Loss on disposal/write off of equipment	-	9	-	9
Depreciation on:				
Premises and equipment	447	431	433	417
Intangible assets				
Computer software	283	203	283	203
Provisions for impairment:				
Loans and advances	4.506	4.484	4.506	4.484
Receivables and other assets	47	68	27	16
Financial guarantees and commitments (note 31)	(82)	25	(82)	25
Pending litigations (note 31)	(60)	60	(60)	60
Debt securities at FVOCI (note 21)	22	-	22	-
Balances with Group companies	-	-	103	99

14. TAXATION

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Corporation tax	20	6	-	-
Deferred tax (note 30)	11	29	12	29
Special contribution to the defence fund	2	-	-	-
Special levy on client deposits	661	640	661	640
	694	675	673	669

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. TAXATION (continued)

The Bank is subject to income tax on taxable profits at the rate of 12,5%. As from 2012 a limitation of five years was introduced in the carried forward losses, under which losses are allowed to be carried forward for offsetting future taxable income, for a period of five years from the year to which the profits relate. 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.

The special levy on deposits is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly instalments. The government levy on client deposits for 2018 amounted to €661 thousand (2017: €640 thousand). Following an amendment of the “Special Levy on Credit Institutions Law” in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the special levy up to the level of the total annual special levy charge. The 2018 special tax on client deposits is net of €70 thousand (2017: €46 thousand) relating to the contribution of the Bank to the Single Resolution Fund.

Reconciliation of taxation based on taxable income and taxation based on accounting profits:

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Accounting loss before tax	(1.296)	(2.267)	(1.121)	(2.189)
Corporation tax on the loss for the year at the rates applicable in Cyprus	(162)	(283)	(140)	(274)
Tax effect of:				
Expenses not deductible for tax purposes	107	48	93	48
Allowances and income not subject to tax	(347)	-	(340)	-
Different foreign tax rates	7	-	-	-
Loss for the year	415	241	387	226
Corporation tax	20	6	-	-
Deferred tax	11	29	12	29
Special contribution to the defence fund	2	-	-	-
Special levy on client deposits	661	640	661	640
Charge for the year	694	675	673	669

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. LOSS AFTER TAX FROM DISCONTINTUED OPERATIONS

THE GROUP

On 2 October 2018 an application was submitted to the Central Bank of Russian Federation (CBRF) for the voluntary wind up of the Bank's Russian subsidiary JSC cdbbank. The application for voluntary wind-up and cancellation of Banking License was approved by CBRF on 17 December 2018. Following the approval of the application, actions were taken by the Bank for the winding up of operations including amongst others the disposal of the subsidiary's assets and repayment of deposits by 31 May 2019. On 7 June 2019 the final Liquidation Accounts of JSC Bank were submitted for approval to the CBRF, who has 30 calendar days to respond. Following approval of the Final Liquidation accounts by the CBRF the Bank will be able to repatriate capital. Notes 23 and 24 are also relevant.

The discontinued classification is considered appropriate because operations of JSC cdbbank Russia constitute a separate geographical segment.

The total effect of the Group's discontinued operations in Russia is presented below:

Discontinued Operations	2018 €'000	2017 €'000
Turnover	694	973
Net interest income	408	408
Fees and commissions	64	136
Net foreign exchange gains	90	62
Total net income	562	606
Loss on disposal of property	-	(189)
Total expenses	(574)	(827)
Provisions for impairment	(151)	(443)
Loss before tax	(163)	(853)
Tax	-	(276)
Loss after tax	(163)	(1.129)
Profit on disposal of subsidiary company	-	-
Loss from discontinued operations net of tax	(163)	(1.129)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. BASIC AND DILUTED LOSS PER SHARE

	THE GROUP		THE BANK	
	2018	2017	2018	2017
Basic and diluted loss per share				
Loss attributable to the owners of the parent company (€'000)	(2.143)	(4.057)	(1.794)	(2.858)
Weighted average number of shares in issue during the year ('000)	25.961	25.961	25.961	25.961
Basic and fully diluted loss per share (cent)	(8,25)	(15,63)	(6,91)	(11,01)

	THE GROUP		THE BANK	
	2018	2017	2018	2017
Basic and diluted loss per share from continuing operations				
Loss attributable to the owners of the parent company (€'000)	(1.980)	(2.928)	(1.794)	(2.858)
Weighted average number of shares in issue during the year ('000)	25.961	25.961	25.961	25.961
Basic and fully diluted loss per share (cent)	(7,63)	(11,28)	(6,91)	(11,01)

	THE GROUP		THE BANK	
	2018	2017	2018	2017
Basic and diluted loss per share from discontinued operations				
Loss attributable to the owners of the parent company (€'000)	(163)	(1.129)	-	-
Weighted average number of shares in issue during the year ('000)	25.961	25.961	-	-
Basic and fully diluted loss per share (cent)	(0,62)	(4,35)	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

17. CASH AND BALANCES WITH CENTRAL BANKS AND OTHER BANKS

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Cash	1.202	642	1.202	642
Balances with central banks	200.795	96.211	200.795	96.211
	201.997	96.853	201.997	96.853
Balances with other banks	29.809	119.452	29.673	119.357
Stage 1 – 12 month expected credit losses	(39)	-	(39)	-
	29.770	119.452	29.634	119.357

Balances with central banks include mandatory deposits for liquidity purposes which amount to €4.981 thousand (2017: €4.526 thousand) for the Group and the Bank.

The credit rating analysis of balances with central banks and balances with other banks by independent credit rating agencies is set out in note 38 to the financial statements.

18. ASSESSED FAIR VALUE OF DERIVATIVES

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

THE GROUP AND THE BANK

	Nominal value €'000	Assessed fair value Asset €'000
Forward exchange rate contracts		
At 31 December 2018	2.880	128
At 31 December 2017	-	-

19. LOANS AND ADVANCES

THE GROUP AND THE BANK

	2018	2017
	€'000	€'000
Loans and advances	313.024	318.243
Impairment losses individually assessed	(63.023)	(59.895)
Impairment losses collectively assessed	(3.552)	(2.808)
	246.449	255.540

Additional analysis and information regarding credit risk and analysis of the provisions for doubtful accounts are set out in note 38 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. LOANS AND ADVANCES (continued)

An analysis of the movement of gross loans and advances to customers according to stages, of the Group and the Bank is presented in the table below:

THE GROUP AND THE BANK

	2018				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	Total **€'000**
1 January	76.756	74.469	146.435	20.583	**318.243**
Transfer from Stage 1 to Stage 2	(1.853)	1.853	-	-	**-**
Transfer from Stage 1 to Stage 3	(977)	-	977	-	**-**
Transfer from Stage 2 to Stage 3	-	(4.326)	4.326	-	**-**
Transfer from Stage 3 to Stage 2	-	24.195	(24.195)	-	**-**
Transfer from Stage 2 to Stage 1	16.243	(16.243)	-	-	**-**
Transfer from Stage 3 to Stage 1	595	-	(595)	-	**-**
Net movement during the period	16.291	(8.382)	(12.424)	(704)	**(5.219)**
31 December	107.055	71.566	114.524	19.879	**313.024**

POCI: Purchased or originated as Credit Impaired

20. INVESTMENTS IN EQUITIES

	THE GROUP		THE BANK	
	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Cost				
Balance 1 January	9.794	9.824	8.058	8.038
Acquisitions	-	20	-	20
Disposals	-	(50)	-	-
Balance 31 December	9.794	9.794	8.058	8.058
Permanent diminution				
Balance 1 January	(9.180)	(9.180)	(7.711)	(7.711)
Balance 31 December	(9.180)	(9.180)	(7.711)	(7.711)
Revaluation at fair value				
Balance 1 January	364	(7)	324	24
Increase in fair value	18	369	2	300
Disposals	-	2	-	-
Balance 31 December	382	364	326	324
Balance 31 December at fair value	996	978	673	671

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. INVESTMENTS IN EQUITIES (continued)

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Investments in Cyprus companies:				
Listed on the Cyprus Stock Exchange	996	978	673	671
Unlisted	-	-	-	-
	996	978	673	671
Investments in equities are classified at				
Fair value through Other comprehensive income	996	978	673	671

Additional analysis and information regarding market risk are set out in note 38 to the financial statements.

21. INVESTMENTS IN DEBT SECURITIES

THE GROUP AND THE BANK

	2018	2017
	€'000	€'000
Securities at fair value through other comprehensive income		
Sovereigns	59.506	41.045
EU and international organisations	3.452	-
Credit institutions	2.603	-
Corporate bonds	14.061	9.626
	79.622	50.671

All debt securities at FVTOCI are listed.

The movement of debt securities was as follows:

	2018	2017	
	Fair Value through OCI	Fair value through OCI	Held to Maturity
	€'000	€'000	€'000
Net book value at 1 January	50.671	-	44.291
Acquisitions	111.159	97.486	87.677
Disposals	(7.551)	-	(20.600)
Maturities	(74.420)	(110.645)	(46.708)
Amortisation of discounts/premiums and interest	(697)	(384)	(486)
Foreign exchange	792	-	-
Mark to market valuation	(240)	40	-
Reclassified from held to maturity to available for sale	-	64.174	(64.174)
	79.714	50.671	-
Stage 1 - 12 month expected credit losses	(92)	-	-
	79.622	50.671	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

21. INVESTMENTS IN DEBT SECURITIES (continued)

Provisions for Impairment of debt securities

The movement for the year in provisions for debt securities is as follows:

	2018 €'000	2017 €'000
Balance 1 January	-	-
Impact of adopting IFRS 9 at 1 January 2018	70	-
Stage 1 – 12 month expected credit losses (note 13)	22	-
Balance 31 December 2018	92	-

Additional analysis and information regarding market risk are set out in note 38 to the financial statements.

22. INVESTMENTS IN SUBSIDIARY COMPANIES

THE BANK

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

	Shareholding 2018 %	Shareholding 2017 %	Activities
In Cyprus:			
Global Capital Limited	84,64	84,64	Portfolio management and the provision of financial advisory and brokerage services
In the Russian Federation:			
JSC cdbbank	100,00	100,00	Commercial banking operations. Classified as discontinued operations (note 15).

At 31 December 2018 the Bank had 100% shareholding in the Special Purpose Entity companies (SPEs) listed below whose activity is the ownership and management of immovable properties acquired in satisfaction of client debts. LLC Cyproperties is a company registered in the Russian Federation, with assets (loans and properties) assigned from JSC cdbbank.

Cyprus registered companies

- Pekito Holdings Limited
- Tsemberio Holding Limited
- Glumar Limited
- Welbon Limited

Russian registered company

- LLC Cyproperties

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

Shareholding interest in Global Capital Limited

THE BANK

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

	Shareholding		Activities
	2018	2017	
	%	%	
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 Bank's exposure in Global Capital Limited is shown below:

	2018 €'000	2017 €'000
Cost of investment 1 January	2.281	2.281
Adjustment to assessed fair value	(1.310)	(1.269)
Assessed fair value of investment	**971**	**1.012**
Amounts due to subsidiary company	(316)	(279)
Amounts due by subsidiary company	184	133
Balance 31 December	**839**	**866**
Income for the year	24	25
Expenses for the year	12	-

Shareholding interest in Special Purpose Entities (SPEs)

THE BANK

The Bank's exposure in Special Purpose Entities is shown below:

	2018 €'000	2017 €'000
Cost of investment 1 January	4	3
Adjustment to assessed fair value	(3)	(3)
Assessed fair value of investment	1	-
Amounts due to SPEs	(156)	(28)
Amounts due by SPEs	14.530	3.673
Balance 31 December	**14.375**	**3.645**
Total exposure in subsidiary companies	**15.214**	**4.511**
Income for the year	81	39
Expenses for the year	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. SUBSIDIARY COMPANY UNDER VOLUNTARY WIND UP

THE BANK

Shareholding interest in JSC cdbbank

On 2 October 2018 an application was submitted to the Central Bank of Russian Federation (CBRF) for the voluntary wind up of the Bank's Russian subsidiary JSC cdbbank. The application for voluntary wind-up and cancellation of Banking License was approved by CBRF on 17 December 2018. Following the approval of the application, actions were taken by the Bank for the winding up of operations including amongst others the disposal of the subsidiary's assets and repayment of deposits by 31 May 2019. On 7 June 2019 the final Liquidation Accounts of JSC Bank were submitted for approval to the CBRF, who has 30 calendar days to respond. Following approval of the final Liquidation accounts by the CBRF the Bank will be able to repatriate capital. Notes 15 and 24 are also relevant.

The Bank's exposure in JSC cdbbank is shown below:

	2018 €'000	2017 €'000
Cost of investment 1 January	6.442	6.442
Exchange differences	(2.788)	(2.435)
	3.654	4.007
Adjustment to assessed fair value	(2.170)	(2.062)
Assessed fair value of investment	**1.484**	**1.945**
Amounts due to subsidiary company	-	(56)
Amounts due by subsidiary company	2.515	2.509
Balance 31 December	**3.999**	**4.398**
Income for the year	101	88
Expenses for the year	45	56

The amount due by the subsidiary company relates to a subordinated loan amounting to €2.515 thousand (31 December 2017: €2.509 thousand). In May 2019, before the submission of the final liquidation accounts of JSC cdbbank to the CBRF the loan was fully repaid.

The fair value measurement for the subsidiary held for sale of €1.484 thousand (31 December 2017: €1.945 thousand) has been categorised as a Level 3 fair value.

24. ASSETS/LIABILITIES OF SUBSIDIARY COMPANY UNDER VOLUNTARY WIND UP

THE GROUP

According to the provisions of the IFRS 5, "Non-Current assets held for sale and discontinued operations", all assets and liabilities of the subsidiary JSC cdbbank under voluntary wind up have been reclassified and are presented on the face of the consolidated statement of financial position under the category Asset/Liabilities of subsidiary under wind up. Notes 15 and 23 are also relevant.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

24. ASSETS/LIABILITIES OF SUBSIDIARY COMPANY UNDER VOLUNTARY WIND UP (continued)

At 31 December 2018 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:

THE GROUP

	2018	2017
	€'000	€'000
Assets		
Cash and balances with banks	3.398	3.792
Loans and advances	436	3.283
Premises and equipment	25	87
Property held for sale	154	176
Receivables and other assets	13	200
Total assets held for sale	4.026	7.538
Liabilities		
Client deposits	18	3.076
Accruals and other liabilities	9	64
Total liabilities held for sale	27	3.140

25. PREMISES AND EQUIPMENT

THE GROUP

	Land and buildings €'000	Plant and equipment €'000	Total €'000
2018			
Cost or valuation			
Balance 1 January	6.199	3.174	9.373
Additions	61	220	281
Disposals	-	(362)	(362)
Balance 31 December	6.260	3.032	9.292
Depreciation			
Balance 1 January	417	2.334	2.751
Charge for the year	147	300	447
On disposals	-	(362)	(362)
Balance 31 December	564	2.272	2.836
Net book value 31 December	5.696	760	6.456
Historic net book value of owned premises stated at valuation 31 December	3.650	-	3.650

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

25. PREMISES AND EQUIPMENT (continued)

THE GROUP	Land and buildings €'000	Plant and equipment €'000	Total €'000
2017			
Cost or valuation			
Balance 1 January	5.997	3.161	9.158
Additions	84	350	434
Disposals	(215)	(337)	(552)
Revaluation	642	-	642
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	6.199	3.174	9.373
Depreciation			
Balance 1 January	778	2.394	3.172
Charge for the year	163	268	431
On disposals	(215)	(328)	(543)
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	417	2.334	2.751
Net book value 31 December	5.782	840	6.622
Historic net book value of owned premises stated at valuation 31 December	3.754	-	3.754

THE BANK	Land and buildings €'000	Plant and equipment €'000	Total €'000
2018			
Cost or valuation			
Balance 1 January	6.087	2.934	9.021
Additions	61	219	280
Disposals	-	(362)	(362)
Balance 31 December	6.148	2.791	8.939
Depreciation			
Balance 1 January	322	2.102	2.424
Charge for the year	135	298	433
On disposals	-	(363)	(363)
Balance 31 December	457	2.037	2.494
Net book value 31 December	5.691	754	6.445
Historic net book value of owned premises stated at valuation 31 December	3.644	-	3.644

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

25. PREMISES AND EQUIPMENT (continued)

THE BANK

	Land and buildings €'000	Plant and equipment €'000	Total €'000
2017			
Cost or valuation			
Balance 1 January	5.885	2.922	8.807
Additions	84	349	433
Disposals	(215)	(337)	(552)
Revaluation	642	-	642
Reversal on depreciation on revaluation	(309)	-	(309)
Balance 31 December	6.087	2.934	9.021
Depreciation			
Balance 1 January	694	2.164	2.858
Charge for the year	152	265	417
On disposals	(215)	(327)	(542)
Reversal of depreciation on revaluation	(309)	-	(309)
Balance 31 December	322	2.102	2.424
Net book value 31 December	5.765	832	6.597
Historic net book value of owned premises stated at valuation 31 December	3.738	-	3.738

The Bank's freehold premises were valued by external professional valuers on 31 December 2017 at open market value on the basis of existing use. The surplus arising from the revaluation of freehold premises amounting to €642 thousand less related deferred tax of €135 thousand, was transferred to the revaluation reserve.

The net book value of freehold premises, on a cost less accumulated depreciation basis, as at 31 December 2018 would have amounted to €3.582 thousand (2017: €3.672 thousand). The net book value of leasehold premises as at 31 December 2018 amounts to €62 thousand (2017: €66 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

26. INTANGIBLE ASSETS

	THE GROUP	THE BANK
	Computer software	Computer software
2018	€'000	€'000
Cost		
Balance 1 January	4.262	4.114
Additions	732	722
Write-offs	(64)	(63)
Balance 31 December	4.930	4.773
Depreciation and impairment losses		
Balance 1 January	3.646	3.498
Charge for the year	283	283
On write-offs	(64)	(63)
Balance 31 December	3.865	3.718
Net book value 31 December	1.065	1.055

	THE GROUP	THE BANK
	Computer software	Computer software
2017	€'000	€'000
Cost		
Balance 1 January	4.060	3.912
Additions	202	202
Balance 31 December	4.262	4.114
Depreciation and impairment losses		
Balance 1 January	3.443	3.295
Charge for the year	203	203
Balance 31 December	3.646	3.498
Net book value 31 December	616	616

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

27. RECEIVABLES AND OTHER ASSETS

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Stock of properties held for sale	14.424	3.666	-	30
Sundry debtors and other assets	2.204	2.086	1.404	1.071
	16.628	5.752	1.404	1.101

Stock of properties held for sale

The Bank as part of its non-performing exposures management is entering into a number of debt-for-asset swap transactions. Assets acquired in satisfaction of debt are acquired directly or through wholly owned Special Purpose Entities (SPEs).

The carrying value of stock of properties is determined as the lower of cost and net realisable value. Impairment is recognized if the net realisable value is below cost.

The stock of properties held at 31 December 2018 consists of commercial buildings and land in Nicosia and Limassol and agricultural land in Sochi region of the Russian Federation.

The movement of stock of properties held for sale is as follows:

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Balance 1 January	3.666	-	30	30
Additions	10.664	3.760	-	-
Disposals	-	-	(30)	-
Impairment losses	-	(94)	-	-
Reversal of impairment	94	-	-	-
Balance 31 December	14.424	3.666	-	30

28. BANK BORROWINGS

THE GROUP AND THE BANK

	2018	2017
	€'000	€'000
Borrowings	4.013	2.001
	4.013	2.001

In 2016 a Finance Contract was signed between the Bank and the European Investment Bank (EIB) for an amount of up to €15 million. The purpose of the loan was to provide support to the Cypriot economy through the financing of eligible investment projects located in Cyprus undertaken by small and medium sized companies. The interest and repayment period are defined for each tranche of the loan. Until the end of 2018 two tranches were disbursed for a total amount of €4.210 thousand

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. BANK BORROWINGS (continued)

carrying a floating interest based on the six-month Euribor and a margin of 0,708%. Both tranches are repayable within ten years, from the date of disbursement, in twenty equal semi-annual instalments as follows:

		Balance		
	Disbursed	2018	2017	Maturity
	€'000	€'000	€'000	€'000
Tranche 1	2.000	1.801	2.001	November 2027
Tranche 2	2.210	2.212	-	October 2028
	4.210	4.013	2.001	

29. CLIENT DEPOSITS

THE GROUP AND THE BANK

	2018	2017
	€'000	€'000
Demand deposits	296.349	216.576
Fixed-term or notice deposits	219.641	264.062
	515.990	480.638

30. DEFERRED TAXATION

THE GROUP AND THE BANK

	2018	2017
	€'000	€'000
Balance 1 January	319	154
Deferred tax on revaluation of premises	(1)	136
Deferred tax asset on discontinued operations	-	-
Debited to the income statement	11	29
Balance 31 December	329	319

	2018	2017
	€'000	€'000
Surplus on revaluation of premises (net of accumulated depreciation)	386	387
Accumulated temporary differences between depreciation and capital allowances	(57)	(68)
	329	319

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

31. ACCRUALS AND OTHER LIABILITIES

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Accrued expenses and other liabilities	2.037	2.217	1.881	1.852
Items in the course of settlement	22.945	8.027	22.774	8.027
Provisions for financial guarantees and commitments	479	310	479	310
Provision for pending litigation	60	120	60	120
	25.521	10.674	25.194	10.309

Items in the course of settlement as at 31 December 2018, include an amount of €13 million relating to an incoming fund received on 31 December 2018 which was applied to the customer's account after year end.

Provisions for financial guarantees and commitments

The movement for the year in provisions for financial guarantees and commitments is as follows:

THE GROUP AND THE BANK	2018	2017
	€'000	€'000
Balance 1 January	310	285
Impact of adopting IFRS 9 at 1 January 2018	251	-
Net increase in provision (note 13)	(82)	25
Balance 31 December	479	310

Provisions for pending litigation

The movement for the year in provisions for pending litigation is as follows:

THE GROUP AND THE BANK	2018	2017
	€'000	€'000
Balance 1 January	120	60
Increase in provision (note 13)	-	60
Decrease in provision (note 13)	(60)	-
Balance 31 December	60	120

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. LOAN CAPITAL

THE GROUP AND THE BANK

	2018	2017
	€'000	€'000
Perpetual Unsecured Subordinated Note	5.000	5.000

On 3rd August 2017, the Bank issued at par a €5.000.000 Perpetual Unsecured Subordinated Note to Bank of Cyprus Public Company Limited. The interest rate on the Note is fixed at 13,75% per annum, payable semi-annually on 30th June and 31st December of each year. The payment of interest can be cancelled by the Bank (the Issuer) at its discretion, provided that at the time of such interest payment:

(a) The Capital Ratio of the Bank for the six months' period prior to the interest payment date concerned shall be below the Regulatory Minimum Capital Ratio as determined by the Central Bank of Cyprus (the Competent Authority) increased by 200 basis points;

(b) The interest payment shall cause the Capital Ratio of the Bank to fall below its Regulatory Minimum Capital Ratio, as determined by the Competent Authority for the six months' period prior to the Interest Payment Date concerned increased by 200 basis points.

Any interest payment cancelled, as indicated above, shall not accumulate or be payable at any time thereafter. For the year ending 31 December 2018 the conditions for payment of interest were not met, and consequently no interest was paid or accrued on the Note.

The Issuer has the option to redeem the Note in full but not in part on the fifth anniversary from the issue date of 3rd August 2022 or any due date for interest payment thereafter. The right to exercise such redemption option is subject to prior permission by the Competent Authority upon demonstrating that the Note has been replaced by own funds instruments of equal or higher quality or that following such redemption own funds would exceed minimum capital requirements as determined by the Competent Authority.

Upon the occurrence of a trigger event, being defined as a Core Equity Tier 1 ratio (CET1) below 5,125%, the principal amount of the Note shall be written down proportionately with other such loss absorbing instruments to the extent necessary to restore CET1 to 5,125%.

The Perpetual Unsecured Subordinated Note qualifies for classification as Additional Tier 1 Capital.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. SHARE CAPITAL

THE BANK

	2018		2017	
	No. of shares	Nominal Share Capital €'000	No. of shares	Nominal Share Capital €'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 issued share capital	25.961.354	35.164	25.961.354	35.164

Notwithstanding the difference in their nominal value and their segregation into two classes, both Class A shares and Class B shares rank pari passu in all respects including voting, return of capital etc., except that Class A shares shall carry a right to a preference cumulative dividend as described in the Bank's Articles of Association. This distinction has been eliminated following the resolutions of the Extraordinary General Meeting of the shareholders of the Bank held on 12 March 2019 as outlined below.

Events after the reporting period

On 12 March 2019 an Extraordinary General Meeting (EGM) of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3million towards the Bank's capital. The remaining unallocated capital of €1million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019.

At the Extraordinary General Meeting of shareholders at 12 March 2019 resolutions were also proposed and approved for the conversion of all the Bank's shares to a single class of ordinary shares in order for the Bank's share capital structure to be simplified. Subject to the approval of the Court, which was obtained on 6 May 2019, the resolutions provided amongst others the reduction of the authorised and issued share capital of the Bank as follows:

A. Reduction of the authorised share capital from €171.000.000 to €140.969.917; and

B. Reduction of the issued share capital from €35.163.915 to €5.192.271. The amount of €29.971.644 corresponding to the amount of the reduction of the Company's issued share capital will be applied for writing off accumulated losses of the Bank and the remaining amount will be transferred to a capital redemption reserve account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

33. SHARE CAPITAL (continued)

Events after the reporting period (continued)

Following completion of all resolutions proposed and approved at the Extraordinary General Meeting of the Bank's shareholders dated 12 March 2019, the authorised and issued share capital of the Bank become as follows:

Authorised share capital of the Bank after resolutions of the EGM held at 12 March 2019:

	No. of shares	Nominal Share Capital €'000
Ordinary shares of NV €0,20 each	704.849.584	140.970
	704.849.584	140.970

Issued and fully paid share capital of the Bank after resolutions of the EGM held at 12 March 2019:

Before capital increase of €4,3m 2019	No. of shares	Nominal Share Capital €'000
Ordinary shares of €0,20 each		
Shares in issue on 31 December 2018	25.961.354	5.192
	25.961.354	5.192

After capital increase of €4,3m in 2019	No. of shares	Nominal Share Capital €'000
Ordinary shares of €0,20 each		
Shares in issue on 31 December 2018	25.961.354	5.192
Shares subscribed in March and June 2019	13.030.303	2.606
	38.991.657	7.798

Shares subscribed in March and June 2019 were issued at a premium of €0,13 per share totaling €1.694 thousand. Share premium is not available for distribution to shareholders in the form of dividend.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. FAIR VALUE

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 Bank's financial instruments, which are not shown on the calculated fair value, are measured at amortized cost using the effective interest rate 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.

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 Bank use the following hierarchy for determining and disclosing fair value:

Level 1: Financial 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.

For assets and liabilities that are recognised in the financial statements at fair value, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period. During the year ended 31 December 2018 and 2017, the Group did not make any transfers into and out of the fair value hierarchy levels.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. FAIR VALUE (continued)

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

THE GROUP

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives	-	128	-	128
Investments at FVOCI				
Equities	996	-	-	996
Debt securities	79.622	-	-	79.622
	80.618	128	-	80.746
Financial liabilities	-	-	-	-

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Investments available for sale				
Equities	978	-	-	978
Debt securities	50.671	-	-	50.671
	51.649	-	-	51.649
Financial liabilities	-	-	-	-

THE BANK

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives	-	128	-	128
Investments at FVOCI				
Equity	673	-	-	673
Debt securities	79.622	-	-	79.622
Subsidiary company under voluntary wind up	-	-	1.484	1.484
Investments in subsidiary companies	-	-	972	972
	80.295	128	2.456	82.879
Financial liabilities	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. FAIR VALUE (continued)

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Investments available for sale				
Equity	671	-	-	671
Debt securities	50.671	-	-	50.671
Subsidiary company under voluntary wind up	-	-	1.945	1.945
Investments in subsidiary companies	-	-	1.012	1.012
	51.342	-	2.957	54.299
Financial liabilities	-	-	-	-

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

THE GROUP

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.696	5.696

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.782	5.782

THE BANK

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.691	5.691

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Non-financial assets				
Premises	-	-	5.765	5.765

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. FAIR VALUE (continued)

Financial instruments not measured at fair value

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

THE GROUP

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	201.997	-	201.997
Balances with other banks	-	29.770	-	29.770
Loans and advances	-	-	246.449	246.449
	-	231.767	246.449	478.216
Financial liabilities				
Bank borrowings	-	-	4.013	4.013
Client deposits	-	-	515.990	515.990
	-	-	520.003	520.003

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	96.853	-	96.853
Balances with other banks	-	119.452	-	119.452
Loans and advances	-	-	255.540	255.540
	-	216.305	255.540	471.845
Financial liabilities				
Bank borrowings	-	-	2.001	2.001
Client deposits	-	-	480.638	480.638
	-	-	482.639	482.639

THE BANK

2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	201.997	-	201.997
Balances with other banks	-	29.634	-	29.634
Loans and advances	-	-	246.449	246.449
	-	231.631	246.449	478.080
Financial liabilities				
Borrowings	-	-	4.013	4.013
Client deposits	-	-	515.990	515.990
	-	-	520.003	520.003

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. FAIR VALUE (continued)

THE BANK (continued)

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Cash and balances with central banks	-	96.853	-	96.853
Balances with other banks	-	119.357	-	119.357
Loans and advances	-	-	255.540	255.540
	-	216.210	255.540	471.750
Financial liabilities				
Bank borrowings	-	-	2.001	2.001
Client deposits	-	-	480.638	480.638
	-	-	482.639	482.639

The assumptions and methodologies underlying the calculation of fair values of financial instruments carried at fair value under level 2 and level 3 hierarchy and for financial assets not carried at fair value are as follows:

Derivatives
Derivatives include forward foreign exchange rate contracts, which are valued using forward pricing.

Investments in subsidiaries
Investments in subsidiaries are categorised under level 3. For these investments the Group uses models which are not based on observable market data and takes into account mainly the net positions of the entities in which the investments have been made, as well as estimates of the Group's management to reflect uncertainties in fair values resulting from the lack of data.

Balances with other banks
Since almost all balances with banks are very short-term, the fair value is an approximation of the carrying value.

Loans and advances to customers
The fair value of loans and advances to customers is based on the present value of expected future cash flows. Future cash flows have been based on the future expected loss rate per loan portfolio, taking into account expectations for the credit quality of the borrowers. In estimating future cash flows, the Group makes assumptions on expected repayments, timing and value of collateral realisation.

Premises
Premises consist of the Bank's freehold land and building in Nicosia used for own account. The fair value of premises is determined using valuations performed by external, accredited independent valuers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. 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 BANK

Contingent liabilities

	2018 €'000	2017 €'000
Guarantees issued	31.621	21.302

Commitments

	2018 €'000	2017 €'000
Documentary credits	3.605	4.166
Undrawn commitments for loans and advances granted to clients	39.641	37.718
	43.246	41.884
Contingent liabilities and commitments	**74.867**	**63.186**

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.

Capital Commitments

Commitments for contracted capital expenditure as at 31 December 2018 amount to €102 thousand (2017: € 342 thousand).

36. OPERATING LEASES – THE BANK AS LESSEE

The Bank leases offices in Nicosia and Limassol under operating lease agreements with varying terms and renewal rights. The total future minimum lease payments under non-cancellable operating leases at 31 December 2018 and 2017 are presented below:

THE GROUP AND THE BANK

	2018 €'000	2017 €'000
Within one year	245	241
Between one and five years	405	585
After five years	-	31
	650	857

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. CASH AND CASH EQUIVALENTS

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Cash	1.202	642	1.202	642
Balances with central banks	195.814	91.685	195.814	91.685
Balances with other banks	28.871	118.558	28.736	118.463
	225.887	210.885	225.752	210.790

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

38. 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.

38.1 Credit risk

In the ordinary course of its 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 scoring systems.

The Group's policy relating to recognition of income on loans and advances and provisions for impairment of doubtful accounts is stated in note 3 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

The Group sets 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. Counterparty and country limits are in place for managing such exposures.

Credit quality analysis

The following table sets out the credit quality of the Group's financial assets:

THE GROUP

		2018					2017
	Note	Stage 1	Stage 2	Stage 3	POCI	Total	Total
		€'000	€'000	€'000	€'000	€'000	€'000
Balances with central banks and other banks							
Aaa - Aa3		1.557	-	-	-	1.557	53.712
A1 - A3		15.609	-	-	-	15.609	12.757
Baa1 - Baa3		10.681	-	-	-	10.681	-
Ba1 - Ba3		200.797	-	-	-	200.797	96.217
B1 – B3		1.818	-	-	-	1.818	-
Caa - C		-	-	-	-	-	52.255
Unrated		142	-	-	-	142	722
	17	230.604	-	-	-	230.604	215.663
Loss allowance		(39)	-	-	-	(39)	-
Carrying amount	17	230.565	-	-	-	230.565	215.663
Loans and advances to customers at amortised cost - gross carrying amount							
Grade 1-3: Low-medium risk		103.225	56.683	-	8.995	168.903	128.798
Grade 4-5: Special mention		3.830	14.883	-	-	18.713	24.636
Non-performing		-	-	114.524	10.884	125.408	164.809
	19	107.055	71.566	114.524	19.879	313.024	318.243
Loss allowance	19	(2.024)	(1.527)	(62.993)	(31)	(66.575)	(62.703)
Carrying amount	19	105.031	70.039	51.531	19.848	246.449	255.540

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Credit quality analysis (continued)

The following table sets out the credit quality of the Group's financial assets:

THE GROUP

	Note	2018 Stage 1 €'000	2018 Stage 2 €'000	2018 Stage 3 €'000	2018 POCI €'000	2018 Total €'000	2017 Total €'000
Loans and advances to customers at amortised cost - gross carrying amount							
Current		97.168	68.234	5.597	12.669	183.668	173.750
Overdue < 30 days		6.965	3.046	3.631	2.744	16.386	23.976
Overdue > 30 days		2.922	286	105.296	4.466	112.970	120.517
Total	19	107.055	71.566	114.524	19.879	313.024	318.243

	Note	2018 Stage 1 €'000	2018 Stage 2 €'000	2018 Stage 3 €'000	2018 POCI €'000	2018 Total €'000	2017 Total €'000
Debt securities							
Aaa - Aa3		38.861	-	-	-	38.861	1.042
A1 - A3		2.650	-	-	-	2.650	8.584
Baa1 - Baa3		8.988	-	-	-	8.988	-
Ba1 - Ba3		29.215	-	-	-	29.215	41.045
	21	79.714	-	-	-	79.714	50.671
Loss allowance	21	(92)	-	-	-	(92)	-
Carrying amount	21	79.622	-	-	-	79.622	50.671
Financial guarantees and loan commitments	35	69.176	198	233	1.655	71.262	59.020
Loss allowance	31	460	-	19	-	479	310
Carrying amount		69.636	198	252	1.655	71.741	59.330

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Concentration of loans and advances by economic sector

THE GROUP AND THE BANK

			2018			2017
	Stage 1	Stage 2	Stage 3	POCI	Total	Total as per IAS 39
	€'000	€'000	€'000	€'000	€'000	€'000
Services	53.047	19.165	25.899	1.958	100.069	103.283
Construction & real estate	33.069	21.614	17.817	16.408	88.908	101.264
Industry	3.287	4.441	33.373	-	41.101	38.680
Hotels & catering	6.908	15.258	10.349	-	32.515	26.143
Agriculture	11	-	16.403	-	16.414	15.212
Transport and storage	1.064	-	517	-	1.581	1.557
Other sectors	9.669	11.088	10.166	1.513	32.436	32.104
	107.055	71.566	114.524	19.879	313.024	318.243
Loss allowance	(2.024)	(1.527)	(62.993)	(31)	(66.575)	(62.703)
Carrying amount	105.031	70.039	51.531	19.848	246.449	255.540

POCI: Purchased or originated as Credit Impaired

Concentration by location

Concentration by location for loans and advances is based on the client's country of domicile. The carrying amount of loans and advances of the Group and the Bank relating to non-resident clients amount to €81 thousand (2017: €3.138 thousand).

Analysis of performing loans and advances by risk grade

THE GROUP AND THE BANK	2018	2017
	€'000	€'000
Carrying amount		
Grade 1-3: Low-medium risk	165.382	126.374
Grade 4-5: Special mention	18.682	24.379
	184.064	150.753
Of which loans and advances with renegotiated terms	50.632	44.076
*Value of collateral security**		
Grade 1-3: Low-medium risk	111.379	73.282
Grade 4-5: Special mention	18.410	18.809
	129.789	92.091
Of which loans and advances with renegotiated terms	46.552	38.995

**Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances by borrower category

THE GROUP AND THE BANK

2018		Performing loans and advances			Non-performing
	Total loans and advances	Non-restructured	Restructured	Total	loans and advances
	€'000	€'000	€'000	€'000	€'000
Loans and advances to corporate legal entities					
Services	84.451	51.843	11.135	62.978	21.473
Construction & real estate	80.207	45.311	14.540	59.851	20.356
Industry	36.991	6.716	122	6.838	30.153
Hotels & catering	27.731	6.585	13.835	20.420	7.311
Agriculture	14.416	-	-	-	14.416
Transport and storage	1.019	1.019	-	1.019	-
Other sectors	1.240	-	-	-	1.240
	246.055	111.474	39.632	151.106	94.949
Loans and advances to retail legal entities					
Services	12.587	7.741	390	8.131	4.456
Construction & real estate	6.818	3.085	-	3.085	3.733
Industry	4.029	809	-	809	3.220
Hotels & catering	2.872	616	855	1.471	1.401
Agriculture	1.784	11	-	11	1.773
Transport and storage	428	45	-	45	383
Other sectors	-	-	-	-	-
	28.518	12.307	1.245	13.552	14.966
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
Owner occupied	9.466	2.439	6.368	8.807	659
Consumer Loans	16.901	6.608	4.305	10.913	5.988
Current accounts	4.829	1.777	1	1.778	3.051
Credit facilities to sole traders	7.255	1.442	18	1.460	5.795
	38.451	12.266	10.692	22.958	15.493
Total loans and advances	313.024	136.047	51.569	187.616	125.408
Provisions	(66.575)	(2.615)	(937)	(3.552)	(63.023)
Carrying amount	246.449	133.432	50.632	184.064	62.385

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances by borrower category (continued)

THE GROUP AND THE BANK

2017		Performing loans and advances			Non-performing
	Total loans and advances	Non-restructured	Restructured	Total	loans and advances
	€'000	€'000	€'000	€'000	€'000
Loans and advances to corporate legal entities					
Services	85.972	50.425	13.817	64.242	21.730
Construction & real estate	92.958	29.966	17.122	47.088	45.870
Industry	32.777	2.717	6.661	9.378	23.399
Hotels & catering	21.598	73	3.100	3.173	18.425
Agriculture	13.399	-	-	-	13.399
Other sectors	1.150	-	-	-	1.150
	247.854	83.181	40.700	123.881	123.973
Loans and advances to retail legal entities					
Services	13.684	8.034	2.229	10.263	3.421
Construction & real estate	6.391	2.414	63	2.477	3.914
Industry	5.835	812	-	812	5.023
Hotels & catering	2.637	39	434	473	2.164
Agriculture	1.603	11	-	11	1.592
Transport and storage	1.094	1.094	-	1.094	-
Other sectors	336	-	-	-	336
	31.580	12.404	2.726	15.130	16.450
Loans and advances to private individuals					
Loans and advances for the purchase/construction of immovable property					
(a) Owner occupied	9.123	1.548	412	1.960	7.163
(b) For other purposes	-	-	-	-	-
Consumer Loans	16.376	6.034	714	6.748	9.628
Current accounts	5.405	2.977	3	2.980	2.425
Credit facilities to sole traders	7.905	2.735	-	2.735	5.170
	38.809	13.294	1.129	14.423	24.386
Total loans and advances	318.243	108.879	44.555	153.434	164.809
Provisions	(62.703)	(2.201)	(480)	(2.681)	(60.022)
Carrying amount	255.540	106.678	44.075	150.753	104.787

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

Analysis of loans and advances on the basis of origination date

THE GROUP AND THE BANK	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		
2018	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	31.045	561	501	28.899	544	473	584	-	3	1.562	17	25
Between one and two years	20.401	366	550	17.755	104	529	159	-	-	2.487	262	21
Between two and three years	15.708	8.120	234	14.352	7.278	216	236	-	-	1.120	842	18
Between three and five years	9.464	6.547	2.336	5.847	3.069	1.056	98	1	-	3.519	3.477	1.280
Between five and seven years	37.360	9.260	3.996	25.005	8.794	3.269	6.641	-	211	5.714	466	516
Between seven and ten years	117.061	40.248	23.164	110.009	37.995	22.264	889	-	2	6.163	2.253	898
Over ten years	81.985	60.306	35.794	72.705	52.129	30.751	859	659	345	8.421	7.518	4.698
	313.024	125.408	66.575	274.572	109.913	58.558	9.466	660	561	28.986	14.835	7.456

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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

	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		
2017	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	21.184	5.375	416	18.395	5.108	380	167	-	-	2.622	267	36
Between one and two years	18.601	9.053	126	17.180	8.262	122	318	-	-	1.103	791	4
Between two and three years	11.172	7.798	3.584	7.714	4.743	2.371	103	-	-	3.355	3.055	1.213
Between three and five years	13.511	9.057	1.689	10.394	7.104	1.291	61	-	-	3.056	1.953	398
Between five and seven years	65.308	28.344	5.800	51.146	18.412	5.537	6.907	6.420	47	7.255	3.512	216
Between seven and ten years	129.834	59.296	25.778	121.439	55.246	23.272	1.329	743	216	7.066	3.307	2.290
Over ten years	58.633	45.886	25.310	53.166	41.548	23.484	238	-	-	5.229	4.338	1.826
	318.243	164.809	62.703	279.434	140.423	56.457	9.123	7.163	263	29.686	17.223	5.983

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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

THE GROUP AND THE BANK

2018	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	15.891	3.853	12.038	10.176
Between three and six months	4.553	724	3.829	2.779
Between six months and one year	6.941	2.070	4.871	4.399
Over one year	98.023	56.376	41.647	33.784
Total	125.408	63.023	62.385	51.138
Of which loans and advances with renegotiated terms	53.635	19.822	33.813	28.032

2017	Non-performing loans and advances €'000	Provisions €'000	Carrying amount €'000	Value of collateral security* €'000
Arrears				
Less than three months	51.392	4.820	46.572	38.901
Between three and six months	7.051	2.113	4.938	4.082
Between six months and one year	1.843	167	1.676	1.569
Over one year	104.523	52.922	51.601	40.559
Total	164.809	60.022	104.787	85.111
Of which loans and advances with renegotiated terms	84.299	18.437	65.862	55.846

The Risk Department determines the amount and type of collateral and other risk mitigation required for the granting of new loans to customers.

**Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

The main types of collateral obtained by the Group are mortgages on real estate, cash collateral, bank guarantees, government guarantees, pledges of equity securities and debt instruments, fixed and floating charges over corporate assets, assignment of life insurance policies and personal and corporate guarantees.

The table below presents the maximum exposure to credit risk, the tangible and measurable collaterals held and the net exposure to credit risk. Personal guarantees are an additional form of collateral but are not included in the information below since it is impracticable to estimate their fair value.

2018	Maximum exposure to credit risk €'000	Value of collateral* Cash €'000	Property €'000	Other €'000	Total collateral €'000	Net exposure to credit risk €'000
Loans and advances to customers						
Performing						
Stage 1	105.031	5.357	54.924	500	60.781	44.250
Stage 2	70.039	312	59.704	-	60.016	10.023
POCI	8.993	-	8.993	-	8.993	-
	184.064	5.669	123.621	500	129.790	54.273
Non-performing						
Stage 3	51.532	95	39.272	1.485	40.852	10.680
POCI	10.855	-	10.285	-	10.285	570
	62.385	95	49.557	1.485	51.137	11.250
	246.449	5.764	173.178	1.985	180.926	65.523
2017						
Loans and advances to customers						
Performing	150.753	6.985	85.047	59	92.091	58.662
Non-performing	104.787	370	84.116	625	85.111	19.676
	255.540	7.355	169.163	684	177.202	78.338

**Collateral securities are stated at forced sale value capped to the carrying amount of loans and advances.*

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

The table below discloses the accumulated impairment losses on the value of loans and advances as per IFRS 9. Amounts of 2017 represent the impairment losses under IAS39 measurement basis.

Provisions for impairment of doubtful accounts on loans and advances

THE GROUP AND THE BANK

	2018					2017
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	POCI €'000	**Total €'000**	Total €'000
1 January	1.470	1.231	59.809	193	**62.703**	66.272
Impact of adopting IFRS 9 at 1 January 2018	122	1.974	859	200	**3.155**	N/A
Restated balance at 1 January	1.592	3.205	60.668	393	**65.858**	66.272
Transfer from Stage 1 to Stage 2	(13)	13	-	-	**-**	N/A
Transfer from Stage 1 to Stage 3	(27)	-	27	-	**-**	N/A
Transfer from Stage 2 to Stage 3	-	(610)	610	-	**-**	N/A
Transfer from Stage 3 to Stage 2	-	359	(359)	-	**-**	N/A
Transfer from Stage 2 to Stage 1	498	(498)	-	-	**-**	N/A
Transfer from Stage 3 to Stage 1	46	-	(46)	-	**-**	N/A
Exchange differences	-	-	9	-	**9**	(100)
Loans and advances written off	(53)	(60)	(5.789)	-	**(5.902)**	(15.867)
Charge/(reversal) for the year	(19)	(882)	7.905	(362)	**6.642**	12.398
Previously written off now recovered	-	-	(32)	-	**(32)**	-
31 December	2.024	1.527	62.993	31	**66.575**	62.703

POCI: Purchased or originated as Credit Impaired

During 2018 exposures of €5.894 thousand were written off (2017: €15.867 thousand).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.1 Credit risk (continued)

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 BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Aaa – Aa3	1.555	12.757	1.555	12.757
A1 – A3	15.588	53.712	15.588	53.712
Baa1 – Baa3	10.667	-	10.667	-
Ba1 – Ba3	200.797	96.217	200.797	96.217
B1 – B3	1.816	-	1.780	-
Caa – C	-	52.255	-	52.255
Unrated	142	722	42	627
	230.565	215.663	230.429	215.568

38.2 Market Risk

Market risk is the risk of loss from adverse changes in market prices - namely from changes in interest rates, exchange rates and security prices.

38.2.1 Price risk

Equity securities price risk

The risk of loss from changes in the price of equity securities arises when there is an unfavourable change in the prices of equity securities held by the Group as investments.

Investments in equities are outside the Group's risk appetite. The current portfolio of equity investments comprises mainly of holdings in two companies listed in the Cyprus Stock Exchange. The prices of equity investments are being monitored by the Group on a continuous basis.

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 Group's policy relating to revaluation of equity investments at their assessed fair value is stated in note 3 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.1 Price risk (continued)

Equity securities price risk (continued)

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

	2018			2017		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities available for sale						
Listed	996	+20	199	978	+20	196
Unlisted	-	+25	-	-	+25	-
Listed	996	-20	(199)	978	-20	(196)
Unlisted	-	-25	-	-	-25	-

THE BANK

	2018			2017		
	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000	Carrying amount €'000	Change in Index or Book Value %	Effect on equity €'000
Equity securities available for sale						
Listed	673	+20	135	671	+20	134
Unlisted	-	+25	-	-	+25	-
Listed	673	-20	(135)	671	-20	(134)
Unlisted	-	-25	-	-	-25	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.1 Price risk (continued)

Concentration of equity securities

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
By sector				
Services	782	764	459	457
Other sectors	214	214	214	214
	996	978	673	671

Debt securities price risk

Debt securities price risk is the risk of loss as a result of adverse changes in the prices of debt securities held by the Bank. Debt security prices change as the credit risk of the issuer changes and/or as the interest rate changes for fixed rate securities. The Bank invests a significant part of its liquid assets in debt securities. The current portfolio of debt securities is designated at FVOCI, hence changes in the value of securities affect the equity of the Group. The Group's policy relating to valuation of debt securities, is stated in note 3 to the financial statements.

The table below shows the impact on the equity of the Bank and the Group from reasonably possible changes in the price of the debt securities held, based on observations of changes in credit risk over the past years.

THE GROUP AND THE BANK

	2018			2017		
	Carrying amount €'000	Change in market prices %	Effect on equity €'000	Carrying amount €'000	Change in market prices %	Effect on equity €'000
Debt Securities						
For A3 and above rated bonds	41.511	+3%	1.245	9	+3%	289
For below A3 rated bonds	38.203	+10%	3.820	41	+10%	4.105
For A3 and above rated bonds	41.511	-3%	(1.245)	9	-3%	(289)
For below A3 rated bonds	38.203	-10%	(3.820)	41	-10%	(4.105)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.1 Price risk (continued)

Concentration of debt securities

THE GROUP AND THE BANK	THE BANK	
	2018	2017
	€'000	€'000
By sector		
Governments	79.622	41.045
Banks	-	9.626
Other sectors	-	-
	79.622	50.671
By country		
Cyprus	79.622	41.045
Great Britain	-	4.285
United States of America	-	4.297
Norway	-	1.044
	79.622	50.671

38.2.2 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 to 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

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

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

THE GROUP 2018	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	200.795	-	-	-	-	1.202	201.997
Balances with other banks	28.121	750	-	899	-	-	29.770
Derivatives	-	-	128	-	-	-	128
Loans and advances	106.612	19.442	120.395	-	-	-	246.449
Investments in equities	-	-	-	-	-	996	996
Investments in debt securities	8.720	6.959	9.856	27.229	26.858	-	79.622
Assets of subsidiary company under wind up	3.834	-	-	-	-	192	4.026
Premises and equipment	-	-	-	-	-	6.456	6.456
Intangible assets	-	-	-	-	-	1.065	1.065
Receivables and other assets	-	-	-	-	-	16.628	16.628
Total assets	348.082	27.151	130.379	28.128	26.858	26.539	587.137
LIABILITIES & EQUITY							
Bank borrowings	4.013	-	-	-	-	-	4.013
Client deposits	349.083	44.091	121.313	1.503	-		515.990
Liabilities of subsidiary company under wind up	-	-	-	-	-	27	27
Deferred taxation	-	-	-	-	-	329	329
Accruals and other liabilities	-	-	-	-	-	25.521	25.521
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	35.164	35.164
Reserves	-	-	-	-	-	1.093	1.093
Total liabilities and equity	353.096	44.091	121.313	1.503	-	67.134	587.137
Net position	(5.014)	(16.940)	9.066	26.625	26.858	(40.595)	-
Change in interest rates -1% - effect on profit	50	169	(91)	(266)	(269)	-	(407)
Change in interest rates +1% - effect on profit	(50)	(169)	91	266	269	-	407

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE GROUP 2017	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	96.211	-	-	-	-	642	96.853
Balances with other banks	68.558	50.000	-	894	-	-	119.452
Loans and advances	139.384	13.023	103.133	-	-	-	255.540
Investments in equities	-	-	-	-	-	978	978
Investments in debt securities	-	19.350	-	9.626	21.695	-	50.671
Premises and equipment	-	-	-	-	-	6.622	6.622
Intangible assets	-	-	-	-	-	616	616
Assets of subsidiary company held for sale	4.220	-	-	-	-	3.318	7.538
Receivables and other assets	-	-	-	-	-	5.752	5.752
Total assets	308.373	82.373	103.133	10.520	21.695	17.928	544.022
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.001	-	-	-	2.001
Client deposits	263.170	63.061	149.067	5.340	-	-	480.638
Deferred taxation	-	-	-	-	-	319	319
Liabilities of subsidiary company held for sale	14	204	2.070	15	-	837	3.140
Accruals and other liabilities	-	-	-	-	-	10.674	10.674
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	35.164	35.164
Reserves	-	-	-	-	-	7.086	7.086
Total liabilities and equity	263.184	63.265	153.138	5.355	-	59.080	544.022
Net position	45.189	19.108	(50.005)	5.165	21.695	(41.152)	-
Change in interest rates -1% - effect on profit	(452)	(191)	500	(52)	(217)	-	(412)
Change in interest rates +1% - effect on profit	452	191	(500)	52	217	-	412

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE BANK
2018

	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	200.795	-	-	-	-	1.202	201.997
Balances with other banks	27.985	750	-	899	-	-	29.634
Derivatives	-	-	128	-	-	-	128
Loans and advances	106.612	19.442	120.395	-	-	-	246.449
Investments in equities	-	-	-	-	-	673	673
Investments in debt securities	8.720	6.959	9.856	27.229	26.858	-	79.622
Subsidiary company held for sale	-	-	3.999	-	-	-	3.999
Investments in subsidiary companies	-	-	-	-	-	15.214	15.214
Premises and equipment	-	-	-	-	-	6.445	6.445
Intangible assets	-	-	-	-	-	1.055	1.055
Receivables and other assets	-	-	-	-	-	1.404	1.404
Total assets	344.112	27.151	134.378	28.128	26.858	25.993	586.620
LIABILITIES & EQUITY							
Bank borrowings	4.013	-	-	-	-	-	4.013
Client deposits	349.083	44.091	121.313	1.503	-	-	515.990
Deferred taxation	-	-	-	-	-	329	329
Accruals and other liabilities	-	-	-	-	-	25.194	25.194
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	35.164	35.164
Reserves	-	-	-	-	-	930	930
Total liabilities and equity	353.096	44.091	121.313	1.503	-	66.617	586.620
Net position	(8.984)	(16.940)	13.065	26.625	26.858	(40.624)	-
Change in interest rates -1% - effect on profit	90	169	(131)	(266)	(269)	-	(407)
Change in interest rates +1% - effect on profit	(90)	(169)	131	266	269	-	407

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.2 Interest rate risk (continued)

THE BANK 2017	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	96.211	-	-	-	-	642	96.853
Balances with other banks	69.357	50.000	-	-	-	-	119.357
Loans and advances	139.384	13.023	103.133	-	-	-	255.540
Investments in equities	-	-	-	-	-	671	671
Investments in debt securities	-	19.350	-	9.626	21.695	-	50.671
Subsidiary company held for sale	-	-	2.509	-	-	1.889	4.398
Investments in subsidiary companies	3.645	-	-	-	-	866	4.511
Premises and equipment	-	-	-	-	-	6.597	6.597
Intangible assets	-	-	-	-	-	616	616
Receivables and other assets	-	-	-	-	-	1.101	1.101
Total assets	308.597	82.373	105.642	9.626	21.695	12.382	540.315
LIABILITIES & EQUITY							
Bank borrowings	-	-	2.001	-	-	-	2.001
Client deposits	263.170	63.061	149.067	5.340	-	-	480.638
Deferred taxation	-	-	-	-	-	319	319
Accruals and other liabilities	-	-	-	-	-	10.309	10.309
Loan capital	-	-	-	-	-	5.000	5.000
Share capital	-	-	-	-	-	35.164	35.164
Reserves	-	-	-	-	-	6.884	6.884
Total liabilities and equity	263.170	63.061	151.068	5.340	-	57.676	540.315
Net position	45.427	19.312	(45.426)	4.286	21.695	(45.294)	-
Change in interest rates -1% - effect on profit	(454)	(193)	454	(43)	(217)	-	(453)
Change in interest rates +1% - effect on profit	454	193	(454)	43	217	-	453

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.2 Market Risk (continued)

38.2.3 Currency risk (continued)

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 limits. The foreign exchange position limits prescribed by the Central Bank of Cyprus are adhered to.

THE GROUP		**2018**			**2017**	
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	153	+10	15	(39)	+10	(4)
British Pound	(19)	+10	(2)	(60)	+10	(6)
Russian Rouble	(29)	+30	(9)	(149)	+30	(45)
Other currencies	(38)	+10	(4)	(37)	+10	(4)
US Dollar	153	-10	(15)	(39)	-10	4
British Pound	(19)	-10	2	(60)	-10	6
Russian Rouble	(29)	-30	9	(149)	-30	45
Other currencies	(38)	-10	4	(37)	-10	4

THE BANK		**2018**			**2017**	
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	153	+10	15	(39)	+10	(4)
British Pound	(19)	+10	(2)	(60)	+10	(6)
Russian Rouble	(29)	+30	(9)	(108)	+30	(32)
Other currencies	(38)	+10	(4)	(37)	+10	(4)
US Dollar	153	-10	(15)	(39)	-10	4
British Pound	(19)	-10	2	(60)	-10	6
Russian Rouble	(29)	-30	9	(108)	-30	32
Other currencies	(38)	-10	4	(37)	-10	4

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.3 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.

Key liquidity ratios

The Group must comply, among others, with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61. The LCR was in effect from 1 October 2015 with a regulatory limit of 60% increasing to 100% from 1 January 2018 when the full phase-in of the requirement is applied.

LCR is calculated as the ratio 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 2018 was 253% (31 December 2017: 416%) and the Bank 220% (31 December 2017: 413%).

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

THE GROUP

2018

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Bank borrowings	-	-	403	3.610	4.013
Client deposits	325.578	63.995	124.913	1.504	515.990
Liabilities of subsidiary under voluntary wind up	-	-	27	-	27
Deferred taxation	-	-	-	329	329
Accruals and other liabilities	23.373	342	-	1.806	25.521
	348.951	64.337	125.343	7.249	545.880
OFF BALANCE SHEET					
Guarantees issued	2.754	1.391	10.689	16.787	31.621
Undrawn facilities	2.700	4.602	17.121	15.218	39.641
	5.454	5.993	27.810	32.005	71.262

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

THE GROUP

2017

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Bank borrowings	-	-	201	1.800	2.001
Client deposits	263.169	63.061	149.067	5.340	480.637
Liabilities of subsidiary company held for sale	774	218	2.070	78	3.140
Deferred taxation	-	-	-	319	319
Accruals and other liabilities	9.460	-	-	1.214	10.674
	273.403	63.279	151.338	8.751	496.771
OFF BALANCE SHEET					
Guarantees issued	780	1.945	9.947	8.630	21.302
Undrawn facilities	2.457	4.958	19.458	10.845	37.718
	3.237	6.903	29.405	19.475	59.020

THE BANK

2018

	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Bank borrowings	-	-	403	3.610	4.013
Client deposits	325.578	63.995	124.913	1.504	515.990
Deferred taxation	-	-	-	329	329
Accruals and other liabilities	23.373	342	-	1.479	25.194
	348.951	64.337	125.316	6.922	545.526
OFF BALANCE SHEET					
Guarantees issued	2.754	1.391	10.689	16.787	31.621
Undrawn facilities	2.700	4.602	17.121	15.218	39.641
	5.454	5.993	27.810	32.005	71.262

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.3 Liquidity Risk (continued)

THE BANK (continued)

2017	On demand and up to one month €'000	Between one and three months €'000	Between three months and one year €'000	Over one years €'000	Carrying amount €'000
LIABILITIES					
Bank borrowings	-	-	201	1.800	2.001
Client deposits	263.169	63.061	149.067	5.340	480.637
Accruals and other liabilities	9.460	-	-	849	10.309
	263.169	63.061	149.268	7.140	482.638
OFF BALANCE SHEET					
Guarantees issued	780	1.945	9.947	8.630	21.302
Undrawn facilities	2.457	4.958	19.458	10.845	37.718
	3.237	6.903	29.405	19.475	59.020

Encumbered assets

Balances with other banks as at 31 December 2018 include an encumbered amount of €899 thousand used to cover collateral required for trade finance transactions and guarantees issued for clients (31 December 2017: €894 thousand).

38.4 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.4 Operational risk (continued)

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 and tested to ensure continuity and timely recovery of operations after a potentially catastrophic event.

38.5 Capital management

The Central Bank of Cyprus (CBC) sets and monitors capital requirements for the Group and for the Bank. 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 company Global Capital Securities and Financial Services 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 Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms.

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 of 1,875% from 1 January 2018 increasing to 2,5% from 1 January 2019. For 2018 the Group was required to maintain on a consolidated basis, a minimum CET 1 ratio of 11,575% (12,20% from 1 January 2019) and a total capital adequacy ratio of 15,075% (15,70% from 1 January 2019).

The Group's CET 1 ratio as at 31 December 2018 stood at 12,34% and was above the minimum required ratio while the total capital adequacy ratio stood at 13,95% and was below the minimum capital requirement set by the Central Bank of Cyprus. The Directors and Management of the Group closely monitor and manage its capital through actions that optimize capital usage. To this end, Management developed a Financial and Capital Plan (the 'Plan'), which was approved by the Management Body in March 2019. The main objectives of the Plan were to enhance the Group's capital adequacy through a rights issue and a number of management actions to ensure that it maintains sufficient resources and capital to support its current activities. In line with the Plan, the Group is expected to continue its de-risking strategy and efforts to successfully resolve the residual NPEs. The IFRS 9 impact on a fully phased-in basis is also considered within the Plan.

On 12 March 2019, an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019, the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.5 Capital management (continued)

Currently the Group is ahead of its Capital Plan with better than anticipated financial performance which may be attributed to an improved macroeconomic and legal environment regarding NPEs which facilitates the resolution of legacy assets as well as the lower than anticipated losses from discontinued operations. The 2019 capital increase of €4,3 has contributed towards the improvement of the Group's overall capital adequacy ratio to c.€15,70%. The combined effect of the 2019 capital increase and the profitability of the Group to this date, have contributed towards the improvement of the Group's overall capital adequacy ratio to c. 16,7%.

Additional information on regulatory capital is disclosed in the Pillar 3 Disclosures Report, which is available on the Group's website www.cdb.com.cy .

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.

Additional Tier I Capital: It includes the Perpetual Unsecured Subordinated Note.

The Group and the Bank adopted the Standardised Approach for credit risk and market risk and the Basic Indicator Approach for operational risk.
The Group's and the Bank's regulatory capital position as at 31 December was as follows:

	THE GROUP		THE BANK	
	2018	2017	2018	2017
	€'000	€'000	€'000	€'000
Regulatory capital				
Common equity Tier I capital	38.412	41.503	38.380	41.432
Additional Tier I capital	5.000	5.000	5.000	5.000
Total regulatory capital	43.412	46.503	43.380	46.432
Risk weighted assets				
Credit risk	285.790	300.921	289.188	302.476
Market risk	-	-	-	-
Operational risk	25.313	24.550	24.718	22.750
Credit value adjustment	138	-	138	-
Total risk weighted assets	311.241	325.471	314.044	326.226
CET1 Capital ratio	12,34%	12,75%	12,22%	12,70%
T1 Capital ratio	13,95%	14,29%	13,81%	14,23%
Total capital adequacy ratio	**13,95%**	**14,29%**	**13,81%**	**14,23%**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

38. RISK MANAGEMENT (continued)

38.6 Leverage Ratio Requirements

The Basel III framework introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and is a binding requirement as from 1 January 2018. The leverage ratio is submitted to the regulatory authorities on a quarterly basis.

The Leverage Ratio of the Group as at 31 December 2018 was 6,94% (31 December 2017: 8,12%), and the Bank 6,95% (31 December 2017: 8,17%), significantly above the 3% minimum threshold applied by the competent authorities.

39. CATEGORISATON OF FINANCIAL INSTRUMENTS

THE GROUP

	Carrying amount €'000	Securities classified at FVTPL €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2018					
Assets					
Cash and Balances with Central Banks	201.997	-	201.997	-	-
Balances with other Banks	29.770	-	29.770	-	-
Derivatives	128	128		-	-
Loans and advances	246.449	-	246.449	-	-
Equity investments	996	-	-	996	-
Debt securities	79.622	-	-	79.622	-
	488.962	128	478.216	80.618	-
Liabilities					
Bank borrowings	4.013	-	-	-	4.013
Client deposits	515.990	-	-	-	515.990
Loan capital	5.000	-	-	-	5.000
	525.003	-	-	-	525.003
31 December 2017					
Assets					
Cash and Balances with Central Banks	96.853	-	96.853	-	-
Balances with other Banks	119.452	-	119.452	-	-
Loans and advances	255.540	-	255.540	-	-
Equity investments	978	-	-	978	-
Debt securities	50.671	-	-	50.671	-
	523.494	-	471.845	51.649	-
Liabilities					
Bank borrowings	2.001	-	-	-	2.001
Client deposits	480.638	-	-	-	480.638
Loan capital	5.000	-	-	-	5.000
	487.639	-	-	-	487.639

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

39. CATEGORISATON OF FINANCIAL INSTRUMENTS (continued)

THE BANK

	Carrying amount €'000	Securities classified at FVTPL €'000	Amortised cost €'000	Securities classified at FVOCI €'000	Other amortised cost €'000
31 December 2018					
Assets					
Cash and Balances with Central Banks	201.997	-	201.997	-	-
Balances with other Banks	29.634	-	29.634	-	-
Derivatives	128	128		-	-
Loans and advances	246.449	-	246.449	-	-
Equity investments	673	-	-	673	-
Debt securities	79.622	-	-	79.622	-
	558.503	128	478.216	80.618	-
Liabilities					
Bank borrowings	4.013	-	-	-	4.013
Client deposits	515.990	-	-	-	515.990
Loan capital	5.000	-	-	-	5.000
	525.003	-	-	-	487.639
31 December 2017					
Assets					
Cash and Balances with Central Banks	96.853	-	96.853	-	-
Balances with other Banks	119.357	-	119.357	-	-
Loans and advances	255.540	-	255.540	-	-
Equity investments	671	-	-	671	-
Debt securities	50.671	-	-	50.671	-
	523.092	128	471.750	51.342	-
Liabilities					
Bank borrowings	2.001	-	-	-	2.001
Client deposits	480.638	-	-	-	480.638
Loan capital	5.000	-	-	-	5.000
	487.639	-	-	-	487.639

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. SHAREHOLDERS

Following clearances obtained from the authorities, namely the European Central Bank and the Cyprus Securities and Exchange Commission, as well as the rejection on 30 April 2018 by the District Court of Nicosia, of the application of shareholders Loramina Trading Ltd and Dayarona Trading Ltd for an interim order restraining the transfer of their 9.728.869 Class B shares to other shareholders, the Bank proceeded with the registration of the transfer of 8.755.982 Class B shares of Loramina Trading Ltd and 972.887 Class B shares of Dayarona Trading Ltd to the existing shareholders Path Holdings Ltd, Leon Investment S.A., Constantinos Shiacolas, Delphis Investments Ltd, Leonidas Ioannou, Intergaz Ltd, Panikos Katsouris and Antonios Yerolemou.

On 12 March 2019 an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3m was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3m towards the Bank's capital. The remaining unallocated capital of €1m was committed and subscribed through a private placement with by local institutional investor on 12 June 2019. The shareholding structure at 31 December 2018 is shown below:

	Shareholding structure as at 31.12.2018
Path Holdings Ltd	17,70%
Leon Investment S.A.	17,70%
Constantinos Shiacolas	14,16%
Delphis Investments Ltd	12,72%
Leonidas Ioannou	12,72%
Loramina Trading Ltd	11,34%
Intergaz Ltd	8,85%
CLR Investment Fund Public Ltd	2,35%
Dayarona Trading Ltd	1,26%
Emerging Financial Partners Ltd	0,96%
Antonis Yerolemou	0,12%
Panikos Katsouris	0,12%

On 29 January, 2019 the Central Bank of Cyprus suspended the voting rights of Loramina Trading Ltd and Dayarona Trading Ltd on the basis of the fit and proper criteria.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. RELATED PARTY TRANSACTIONS

THE GROUP AND THE BANK

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

	2018 €'000	2017 €'000
Director emoluments		
Executives		
Salaries	184	225
Employers contributions for social insurance, etc	15	18
Retirement benefits	2	14
Compensation for terminations	165	-
	366	257
Non-executives		
Fees	207	249
	573	506
Key management personnel emoluments		
Salaries	254	247
Employers contributions for social insurance, etc	19	18
Retirement benefits	23	22
	296	287
Total	869	793

Key management personnel

Key management personnel emoluments for 2018 include the remuneration of the General Manager Administration and General Manager Banking.

Key management personnel emoluments for 2017 include the remuneration of the Acting Chief Executive Officer for the period of his appointment and the General Manager Administration.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. RELATED PARTY TRANSACTIONS (continued)

THE GROUP AND THE BANK (continued)

Members of the Management Body and connected persons (continued)

	2018 €'000	2017 €'000
Loans and advances	204	293
Deposits	438	631
Unutilised limits	57	63
Interest income for the year	10	11
Interest expense for the year	3	7

All transactions with members of the Management Body and their connected persons are made on normal business terms.

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.

	2018 €'000	2017 €'000
Loans and advances	193	238
Deposits	137	53
Guarantees and unutilised limits	41	16
Interest income for the year	1	1
Interest expense for the year	3	5

Transactions with key management personnel are made according to the terms applicable to the rest of the personnel of the Bank.

Balances and transactions with subsidiary companies are disclosed under notes 22 and 23 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

42. LITIGATION

The Bank operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As at 31 December 2018, there were pending litigations against the Bank arising in the ordinary course of the Bank's business as well as a legal action by two of the Bank's shareholders. While the outcome of these matters is inherently uncertain the Bank considers, based on the information available, that the probability of outflow is remote and therefore no provision was recorded against these cases.

43. OPERATING ENVIRONMENT

Cyprus economy continued its positive trajectory in 2018 marking positive economic performance for sixteen consecutive quarters since the unprecedented economic crisis of 2013. For 2018, GDP continued expanding albeit with a marginal slowdown and is expected to reach y-o-y 3,8% driven by positive developments in domestic demand. A rate that is among the highest in the euro area.

GDP growth was mainly driven by the strong performance of private consumption and large private investments in construction and infrastructure projects, a significant proportion of which is financed by foreign capital. During 2018, private consumption grew an annual 3,7%. Over the same period, public consumption grew an annual 4,3% while investment in construction increased an annual 19,5%.

From a sectoral perspective, growth has been broad-based. The sectors with the most important contribution to GDP growth in 2018 were trade, transportation, hotels and restaurants construction and professional, scientific and administrative activities. The only exception is the financial and insurance activities sector reflecting the ongoing deleveraging of loans as the private sector's balance sheet consolidation process continues. The latter has also a positive effect since the deleveraging of loans helps reduce high private debt. Among the sectors which contribute to growth, but nevertheless need careful monitoring is the real estate sector, especially in Limassol, where prices and rents have been moving at a different speed compared to the other areas of Cyprus.

Public finances have been consolidated to a large extent to secure the sustainability of public debt. The fiscal balance recorded a surplus of €344 million (1,8% of GDP) for 2017 compared with a surplus of €59 million (0,3% of GDP) in the corresponding period in 2016. The preliminary General Government fiscal results for 2018, include the fiscal burden of €1,7 billion, that was the result of the sale of the ex-CCB to Hellenic Bank, and indicate a deficit of €1,1 billion (-5,1% of GDP) for 2018, as compared to a surplus of €344 million for 2017 (1,8% of GDP). Excluding the fiscal burden of ex-CCB, the fiscal balance would register a surplus of €611 million (+2,9% of GDP). The fiscal performance of Cyprus, in terms of overall and primary balance is currently regarded as satisfactory. The positive outcome reflects the prudent execution of the state budget, in line with increased revenues due to the growth of economic activity and other non-recurring revenue that resulted from the tax arrears scheme. However, any increase in expenditures must be controlled and targeted to avoid fiscal deterioration.

In line with the positive macroeconomic developments and according to data from the Labour Force Survey, unemployment decreased to 7,3% compared with 17,6% in 2015, when it peaked. This is the first time since 2011 Q4 that a single-digit unemployment rate has been recorded. At the same time,

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

43. OPERATING ENVIRONMENT (continued)

employment continues to show strong positive growth. The continued expanding employment across all sectors and moderate rising compensation per employee benefitted private consumption.

The real estate sector impacted positively by recovery of the wider economy and the ongoing consolidation of the banking sector continued to show signs of recovery for ten consecutive quarters, following a marked drop of 30% peak-to-trough. The real estate sector at this stage is funded mainly by foreign investment (including pre-sales) and partly by new sustainable lending. Demand rose notably in the first half of 2018, recording the highest rate since 2013 (3,6%) and prices recorded relatively small increases, with the exception of Limassol where apartment prices rose significantly. The contribution of the construction sector to GDP corresponded to 4,4%.

Inflation continues to remain positive, although at subdued levels at around 0,7%. Inflation reflects, the significant increases in energy, unprocessed food and services prices as well as the strong performance of tourism related categories. For 2018 revenue from tourism is estimated at €2,7 billion compared to €2,6 billion in the corresponding period of 2017, recording an increase of 2,7%. Inflation remains subdued primarily due to significant annual declines in the prices of non-energy industrial goods, from increased competition and the ongoing general corrective pattern in the prices of various products.

The satisfactory performance of the economy is also reflected in the recent upgrade of Cyprus' sovereign rating to investment grade by three international rating agencies. In September 2018, Standard and Poor's upgraded Cyprus' long-term credit rating "BBB-", placing the economy on an investment grade after six years. Subsequently, in October 2018, Fitch upgraded the rating for the Cyprus sovereign to "BBB-" from "BB+". In July 2018, Moody's Ratings upgraded the rating for Cyprus sovereign to "Ba2" from "Ba3", two notches below investment grade. Taking advantage of the stable market backdrop and the recent rating upgrades, in February 2019, the Republic of Cyprus tapped the international capital markets, with an issue of a fifteen-year bond of €1 billion at a yield of 2,75%.

The banking sector in Cyprus was significantly reformed in 2018 after the business transfer agreement between the CCB and Hellenic Bank. The remaining entity of the CCB has been transformed into a cooperative asset management company (SEDIPES), a legal entity without a banking license. The balance sheet items of the CCB that remained in SEDIPES and are outside the banking system include about one third of the NPEs of the total banking sector. This development coupled with the recent sales of loan portfolios by other Banks such as Bank of Cyprus and Hellenic Bank, the improvement of the relative legislative framework and the implementation of the ESTIA scheme, is expected to place the banking sector on a healthier base, contributing further to the consolidation of the banks' balance sheets. The main challenges that the banking sector continues to face, are the relatively high stock of NPEs and their negative impact on credit supply, low interest rates and the high operating expenses. However, the historically low interest rates environment that is expected to continue prevailing is positive for the restructuring of both performing and non-performing loans and the deleveraging efforts of the private sector as well as banks' to balance sheets consolidation, which continues to progress steadily.

Despite the important steps taken towards restoring the positive economic climate, some degree of uncertainty remains. Downside risks to economic growth are associated with a slower-than-projected decline in the high level of NPEs, high level of private debt which constrains, to some extent, the granting

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

43. OPERATING ENVIRONMENT (continued)

of new loans, high levels of public debt and demand by various groups for higher public spending. In addition, a number of external risks might impact negatively the economic outlook including possible deterioration in external demand for services (because of the unfavourable economic situation that may prevail due to a hard Brexit), negative economic developments in countries with which Cyprus has strong economic tights, negative developments in Italy with spill over effects on other European Countries with high public debt, strengthening of the euro against foreign currencies, such as the rouble and sterling, a slower than expected growth in Europe and adverse geopolitical developments in the eastern Mediterranean region and the Middle East which could negatively affect the prospects of the tourism and professional services sectors and foreign investments and therefore economic activity.

Under the baseline scenario, the Cyprus economy is expected to register significant, albeit slightly decelerating, annual increases in the period 2019-2021. GDP is expected to grow by 3,7% in 2019, 3,2% in 2020 and 3,3% in 2021. The positive developments in domestic economic conditions, particularly in the service sectors, as well as the expected continued gradual increase in wages, are expected to result in gradual price increases over the next few years. The GDP growth path mainly reflects the good performance of key economic sectors and forecasted growth in domestic demand resulting from increasing private consumption due to recovery in disposable income and reduction in unemployment as well as rising gross fixed capital formation which is driven by improvement in investors' expectations regarding the investment prospects opening up in the areas of energy, tourism and transport. Improved expectations regarding the investment prospects in different sectors, confirm the positive expectations regarding the economy's performance.

44. EVENTS AFTER THE REPORTING PERIOD

Increase of issued share capital

On 12 March 2019 an Extraordinary General Meeting of the shareholders of the Bank was held, whereby a resolution for an increase of the Bank's Capital by €4,3 million was approved. On 22 March 2019 the Bank's shareholders subscribed to an amount of €3,3 million towards the Bank's capital. The remaining unallocated capital of €1 million was committed and subscribed through a private placement by a local institutional investor on 12 June 2019. Details are presented in note 33 and 40 to the financial statements.

Changes in the structure of authorised and issued share capital

At the Extraordinary General Meeting of shareholders at 12 March 2019 resolutions were also proposed and approved for the conversion of all the Bank's shares to a single class of ordinary shares in order for the Bank's share capital structure to be simplified. Subject to the approval of the Court, which was obtained on 6 May 2019, the resolutions provided amongst others the reduction of the authorised and issued share capital of the Bank as follows:

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For the year ended 31 December 2018

44. EVENTS AFTER THE REPORTING PERIOD (continued)

A. Reduction of the authorised share capital from €171.000.000 to €140.969.917; and

B. Reduction of the issued share capital from €35.163.915 to €5.192.271. The amount of €29.971.644 corresponding to the amount of the reduction of the Company's issued share capital will be applied for writing off accumulated losses of the Bank and the remaining amount will be transferred to a capital redemption reserve account in accordance with the provisions of section 64(1)(e) of the Companies Law, Cap. 113.

The authorised and issued share capital of the Bank following completion of all the resolutions proposed and approved at the Extraordinary General Meeting of the Bank's shareholders dated 12 March 2019, is presented in note 33 to the financial statements.

The consolidated and standalone financial statements were approved and authorised for issue on 28 June 2019.