Eurobank
Cyprus

EUROBANK CYPRUS LTD

Report and Financial Statements

For the year ended 31 December 2016

Eurobank Cyprus Ltd

Report and financial statements for the year ended 31 December 2016

Contents

Eurobank Cyprus Ltd

Board of Directors and Other Officers

Board of Directors

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

Executive Committee

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

Company Secretary

D. Shacallis

Registered office

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

Eurobank Cyprus Ltd

Management Report

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the "Bank") for the year ended 31 December 2016.

Principal activity

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

Branches

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

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

The main financial highlights for the year are as follows:

	2016	2015
	€'000	€'000
Operating income	**90.104**	83.611
Operating expenses including provision for impairment of loans and advances	**40.437**	33.368
Profit before tax and government levies	**49.667**	50.243
Profit for the year	**38.091**	39.101
Customer deposits	**3.908.262**	3.240.685
Loans and advances to customers	**1.817.465**	1.896.991
Total assets	**4.879.262**	4.132.000
Equity	**409.456**	364.027
	%	%
Cost/income	**29,0**	27,5
Return on equity	**9,8**	8,2
Loans/deposits	**46,5**	58,5
NPE	**6,9**	6,8
Capital adequacy	**30,0**	30,6
CET1	**28,3**	27,1

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

Eurobank Cyprus Ltd

Management Report (continued)

Business outlook and risks

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

Operating environment of Cyprus

Cyprus exited the adjustment program in March 2016 without the need of a successor arrangement. Access to market funding has been fully restored as witnessed by the 5 successful debt issuances since 2014 under the EMTN program. The implementation of the program has generally been acknowledged for meeting the key objectives, especially those relating to fiscal discipline and Banking reforms.

The Cypriot economy has continued its successful progress in 2016 with growth accelerating to 2,8% from 1,7% in 2015. Economic growth is projected to maintain its positive momentum and reach 2,5% over the period of 2017-2019. Unemployment is expected to remain on a downward trend and drop to 10% by 2019 from the current level of 14,1%. Youth and long term unemployment remain as the key challenges in the labour market but with encouraging signs of gradual improvement. Inflation remained in negative territory for the most part of 2016, mainly due to the effects of lower energy prices. Given the recent stability in energy prices inflation is expected to turn positive and reach 2% by 2019 which is aligned with the trend in economic growth.

Tourist arrivals increased by 20% in 2016 due to double digit growth from all major markets. Revenue from tourism marked an increase of 12% in 2016, reaching €2,35bn compared to €2,1bn in 2015. Data published by the Land Registry indicates that annual property sales increased at a pace of 43% which validates that confidence in the real estate sector has been restored. Regarding the energy sector and the exploration for hydrocarbon reserves the Government is proceeding with the 3rd licensing round with the biggest energy players internationally. The aforementioned positive developments have been instrumental in regaining investor confidence in the Cypriot economy.

The Cypriot banking system has continued its creditable recovery. Significant progress has been achieved in the management of NPE's which recorded a reduction of 3 billion to a total of 23,7 billion Euro for the year. Liquidity in the system continued to improve with total deposits increasing by 3 billion to 49 billion Euro in December 2016.

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

Eurobank Cyprus Ltd

Management Report (continued)

Business outlook and risks (continued)

Financial risk management

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

The Bank minimises the risk by adopting appropriate procedures and controls to evaluate the quality of the credit facilities granted.
In addition, the Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted (excluding related party balances, Note 30). Facilities higher than these limits are authorised and monitored at group level.

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

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

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

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

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

Eurobank Cyprus Ltd

Management Report (continued)

Future developments of the Bank

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

Results

The Bank's results for the year are set out on pages 9 and 10.
The Board of Directors does not recommend the payment of a dividend and the net profit for the year is retained.

Share capital

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

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2016 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2016 and up to the date of this report except from Mr. Takis Phidia who was appointed on the Board of Directors of the Bank on 24 February 2017.

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

Bank Management

The Bank's Executive Committee as at 31 December 2016 and at the date of this report is shown on page 1.

Events after the balance sheet date

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

Auditors

The Independent Auditors, PricewaterhouseCoopers Limited have expressed their willingness to continue in office.

By Order of the Board

Michalis Louis
Chief Executive Officer

Nicosia, 25 April 2017

Eurobank Cyprus Ltd

Independent auditor's report

To the Members of Eurobank Cyprus Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of parent company Eurobank Cyprus Limited (the "Bank"), which are presented in pages 9 to 83 and comprise the balance sheet as at 31 December 2016, and the statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of parent company Eurobank Cyprus Limited as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

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

Other information

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

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

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

Eurobank Cyprus Ltd

Independent auditor's report

To the Members of Eurobank Cyprus Ltd

Responsibilities of the Board of Directors for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

Eurobank Cyprus Ltd

Independent auditor's report

To the Members of Eurobank Cyprus Ltd

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

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of these books.
- The Bank's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 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.

George C. Kazamias

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

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 25 April 2017

Eurobank Cyprus Ltd

Income Statement
for the year ended 31 December 2016

	Note	2016 €'000	2015 €'000
Interest income	5	**109.210**	109.809
Interest expense	5	**(40.514)**	(44.584)
Net interest income		**68.696**	65.225
Banking fee and commission income	6	**30.110**	25.813
Banking fee and commission expense	6	**(8.691)**	(7.825)
Net banking fee and commission income		**21.419**	17.988
Net trading income	7	**263**	90
Net (losses)/gains from investment securities	8	**(274)**	307
Other income		**-**	1
		(11)	398
Operating income		**90.104**	83.611
Staff costs	9	**(14.603)**	(13.513)
Other operating expenses	10	**(11.509)**	(9.507)
Profit from operations before impairments		**63.992**	60.591
Impairment losses on loans and advances	16	**(14.325)**	(10.348)
Profit before tax and government levies		**49.667**	50.243
Government levy on customer deposits	23	**(5.227)**	(4.796)
Income tax expense	11	**(6.349)**	(6.346)
Profit for the year		**38.091**	39.101

The notes on pages 14 to 83 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income for the year ended 31 December 2016

		2016 €'000		2015 €'000
Profit for the year		**38.091**		39.101
Other comprehensive income:				
Items that may be subsequently reclassified to profit or loss:				
Available-for-sale financial assets (Note 17)				
- net changes in fair value, net of tax	**7.064**		1.342	
- transfer from/(to) profit or loss due to disposal and impairment, net of tax	**274**		(305)	
		7.338		1.037
Other comprehensive income for the year		**7.338**		1.037
Total comprehensive income for the year		**45.429**		40.138

The notes on pages 14 to 83 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet
at 31 December 2016

	Note	2016 €'000	2015 €'000
Assets			
Cash and balances with central banks	12	**168.378**	39.896
Loans and advances to banks	13	**2.298.543**	1.554.848
Investment in subsidiaries	14	**1**	1
Derivative financial instruments	15	**10.472**	2.765
Loans and advances to customers	16	**1.817.465**	1.896.991
Available-for-sale financial assets	17	**236.011**	261.505
Held-to-maturity investments	18	**337.640**	366.081
Intangible assets	19	**2.785**	2.232
Property, plant and equipment	20	**7.270**	6.871
Other assets	21	**697**	810
Total assets		**4.879.262**	4.132.000
Liabilities			
Due to other banks	22	**522.359**	492.606
Derivative financial instruments	15	**1.402**	527
Due to customers	23	**3.908.262**	3.240.685
Other liabilities	24	**37.783**	34.155
Total liabilities		**4.469.806**	3.767.973
Equity			
Share capital	25	**12.010**	12.010
Share premium	25	**245.384**	245.384
Other reserves		**6.950**	(388)
Retained earnings		**145.112**	107.021
Total equity		**409.456**	364.027
Total equity and liabilities		**4.879.262**	4.132.000

On 25 April 2017 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Michalis Louis, Chief Executive Officer

Demetris Shacallis, Chief Financial Officer

The notes on pages 14 to 83 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity for the year ended 31 December 2016

	Share capital €'000	Share premium €'000	Available-for-sale revaluation reserve €'000	Retained earnings €'000	**Total €'000**
Balance at 1 January 2015	**12.010**	**245.384**	**(1.425)**	**333.893**	**589.862**
Other comprehensive income for the year	-	-	1.037	-	**1.037**
Profit for the year	-	-	-	39.101	**39.101**
Total comprehensive income for the year	**-**	**-**	**1.037**	**39.101**	**40.138**
Transactions with owners:					
Dividend paid (Note 25)	-	-	-	(265.973)	(265.973)
Total transactions with owners	**-**	**-**	**-**	**(265.973)**	**(265.973)**
Balance at 31 December 2015/ 1 January 2016	**12.010**	**245.384**	**(388)**	**107.021**	**364.027**
Other comprehensive income for the year	-	-	7.338	-	**7.338**
Profit for the year	-	-	-	38.091	**38.091**
Total comprehensive income for the year	**-**	**-**	**7.338**	**38.091**	**45.429**
Balance at 31 December 2016	**12.010**	**245.384**	**6.950**	**145.112**	**409.456**

The notes on pages 14 to 83 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement
for the year ended 31 December 2016

	Note	2016 €'000	2015 €'000
Profit before tax and government levies		**49.667**	50.243
Adjustments for:			
Amortisation of intangible assets	19	**512**	562
Depreciation of property, plant and equipment	20	**1.520**	1.197
Loss/(profit) on disposal of property, plant and equipment	20	**6**	(13)
Impairment losses on loans and advances	16	**14.336**	10.702
Interest income on available-for-sale financial assets	5	**(10.848)**	(12.997)
Interest income on held-to-maturity instruments	5	**(12.568)**	(11.631)
Foreign exchange differences on investing activities		**(2.518)**	(20.460)
Profit on disposal of available-for-sale financial assets	8	**(261)**	(315)
Net fair value loss on available-for-sale financial assets transferred to income statement due to impairment	8	**535**	8
		40.381	17.296
Changes in operating assets and liabilities			
Net (increase)/decrease in cash and balances with central Banks		**(128.797)**	3.626
Net (increase)/decrease in loans and advances to banks		**(53.878)**	137.161
Net increase in derivative financial instruments		**(6.832)**	(1.724)
Net decrease/(increase) in loans and advances to customers		**65.190**	(260.307)
Net decrease in other assets		**113**	530
Net increase in due to other banks		**29.753**	76.235
Net increase/(decrease) in due to customers		**667.577**	(69.420)
Net increase in other liabilities		**3.521**	12.203
		617.028	(84.400)
Government levy on customer deposits paid		**(5.227)**	(4.797)
Income tax paid		**(6.242)**	(6.196)
Net cash flows from/(used in) operating activities		**605.559**	(95.393)
Cash flows from investing activities			
Purchases of intangible assets	19	**(1.065)**	(712)
Purchases of property, plant and equipment	20	**(1.932)**	(826)
Proceeds from sale of property, plant and equipment	20	**7**	20
Proceeds from disposal and redemptions of available-for-sale financial assets	17	**33.919**	560.538
Payments for acquisition of available-for-sale financial assets	17	**-**	(275.617)
Interest received on available-for-sale financial assets		**12.005**	14.839
Proceeds from redemption of held-to-maturity investments	18	**68.109**	62.625
Payments for acquisition of held-to-maturity investments	18	**(40.291)**	(244.583)
Interest received on held-to-maturity investments	18	**13.191**	7.473
Net cash flows from investing activities		**83.943**	123.757
Cash flows from financing activities			
Payment of dividends	25	**-**	(265.973)
Net cash flows used in investing activities		**-**	(265.973)
Net increase/(decrease) in cash and cash equivalents		**689.502**	(237.609)
Cash and cash equivalents at beginning of year	29	**1.553.156**	1.790.765
Cash and cash equivalents at end of year	29	**2.242.658**	1.553.156

The notes on pages 14 to 83 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

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

Principal activity

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

As of the date of the authorisation of the financial statements, all IFRSs issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2016 have been endorsed by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39, "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets at fair value through profit or loss.

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

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

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

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

<u>Going concern considerations:</u>

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

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

In June 2016, Greece, after the completion of a number of key prior actions, has successfully concluded the first review of the Third Economic Adjustment Program (TEAP), which permitted the disbursement of €10,3 billion from the second instalment of the European Stability Mechanism (ESM) loan that allowed the country to cover its debt servicing needs and clear a part of the state's arrears to the private sector. In accordance with the agreement with the European partners, the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program.

The next key milestone for Greece is the timely and successful completion of the second review of the TEAP, currently in progress, which would help reinstating depositors' confidence and thus accelerate the return of deposits, it would facilitate the faster relaxation of capital controls and would allow for the participation in ECB's Quantitative Easing (QE) program, conditional on the decisions of the Institutions regarding the plan for the implementation of the medium-term debt relief measures. Moreover, the reduction of the short term uncertainty along with, the decisive implementation of the reforms agreed in the context of the ESM program and the mobilisation of European Union (EU) funding to support domestic investment and job creation, would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilisation of the domestic economic environment, which are necessary conditions for the return of the country to a sustainable growth path.

The Group, following the successful completion of its recapitalisation in November 2015, exclusively from private sources, is focused on the organic strengthening of its capital position by the further expansion of pre-provision income while maintaining its robust risk management practices, and by proceeding to additional initiatives associated with the restructuring, transformation or optimization of operations, in Greece and abroad, that will generate or release further capital and/or reduce risk weighted assets. One of the key areas of focus is the active management of non-performing exposures at an accelerated pace, with the aim to substantially reduce their stock in accordance with the Eurobank Ergasias S.A. operational targets and taking advantage of the Group's internal infrastructure, the external partnerships and the important legislative changes that have taken or are expected to take place. The Group's Common Equity Tier 1 (CET1) ratio stood at 17,6% at the end of 2016 and the net profit attributable to shareholders amounted to €230.1 million for the year ended 31 December 2016.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued):

b) *The Cyprus economy*

Cyprus exited the adjustment program in March 2016 without the need of a successor arrangement. Access to market funding has been fully restored as witnessed by the 5 successful debt issuances since 2014 under the EMTN program. The implementation of the program has generally been acknowledged for meeting the key objectives, especially those relating to fiscal discipline and Banking reforms.

The Cypriot economy has continued its successful progress in 2016 with growth accelerating to 2,8% from 1,7% in 2015. Economic growth is projected to maintain its positive momentum and reach 2,5% over the period of 2017-2019. Unemployment is expected to remain on a downward trend and drop to 10% by 2019 from the current level of 14,1%. Youth and long term unemployment remain as the key challenges in the labour market but with encouraging signs of gradual improvement. Inflation remained in negative territory for the most part of 2016, mainly due to the effects of lower energy prices. Given the recent stability in energy prices inflation is expected to turn positive and reach 2% by 2019 which is aligned with the trend in economic growth.

Tourist arrivals increased by 20% in 2016 due to double digit growth from all major markets. Revenue from tourism marked an increase of 12% in 2016, reaching €2,35bn compared to €2,1bn in 2015. Data published by the Land Registry indicates that annual property sales increased at a pace of 43% which validates that confidence in the real estate sector has been restored. Regarding the energy sector and the exploration for hydrocarbon reserves the Government is proceeding with the 3rd licensing round with the biggest energy players internationally. The aforementioned positive developments have been instrumental in regaining investor confidence in the Cypriot economy.

The Cypriot banking system has continued its creditable recovery. Significant progress has been achieved in the management of NPE's which recorded a reduction of 3 billion to a total of 23,7 billion Euro for the year. Liquidity in the system continued to improve with total deposits increasing by 3 billion to 49 billion Euro in December 2016.

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

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS

(a) Amendments to standards adopted by the Bank

The following amendments to standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply from 1 January 2016:

IAS 16 and IAS 38, Amendments - Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify that the use of revenue-based methods to calculate the depreciation for property plant and equipment is not appropriate and they also clarify that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
The adoption of the amendments had no impact on the financial statements.

IAS 1, Amendment - Disclosure initiative

The amendment clarifies that an entity need not provide in the financial statements, including the notes, a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and also clarifies that additional disclosures may be necessary if the information required by IFRSs is not sufficient for an understanding of the impact of particular transactions and events on the entity's financial position and performance.
The line items listed in IAS 1 for the balance sheet and the statement of profit or loss should be disaggregated if this is relevant to an understanding of the entity's financial position and additional guidance on the use of subtotals is provided. In the statement of comprehensive income the share of the other comprehensive income of equity –accounted associates and joint ventures should be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss and when determining a systematic approach to presenting notes, the entity should consider the understandability and comparability of its financial statements.
The adoption of the amendment had no impact on the financial statements.

IAS 19, Amendment-Defined Benefit Plans: Employee Contributions

The amendment clarifies the accounting for post-employment benefit plans where employees or third parties are required to make contributions which do not vary with the length of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment allows these contributions to be deducted from service cost in the year in which the related employee service is delivered, instead of attributing them to periods of employee service. Contributions which vary with the length of employee service, must be spread over the service period using the plan's contribution formula or on a straight line basis, consistent with the attribution method applied to the gross benefit in accordance with paragraph 70 of IAS 19.
The adoption of the amendment had no impact on the financial statements.

IAS 27, Amendment-Equity Method in Separate Financial Statements

This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and clarifies the definition of separate financial statements. In particular, separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures which are required by IAS 28 Investments in Associates and Joint Ventures to be accounted for using the equity method.
The adoption of the amendment had no impact on the financial statements.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IFRS 11, Amendment – Accounting for Acquisitions of Interests in Joint Operations
This amendment requires an investor to apply the principles of business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs, which do not conflict with IFRS 11, when it acquires an interest in a joint operation that constitutes a 'business' as defined in IFRS 3. The amendments, which also apply when an existing business is contributed to the joint operation on its formation, require the disclosure of information specified in IFRS 3 and other IFRSs for business combinations. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation while the joint operator retains joint control. However, a previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation results in retaining joint control.
The adoption of the amendment had no impact on the financial statements.

IFRS 10, IFRS 12 and IAS 28, Amendments - Investment Entities: Applying the Consolidation Exception
The amendments clarify the application of the consolidation exception for the subsidiaries of investment entities.
The adoption of the amendments had no impact on the financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle
The amendments introduce key changes to seven IFRSs following the publication of the results of the IASB's 2010-12 cycle of the annual improvements project. The topics addressed by these amendments are set out below:
- IFRS 2 'Share – based Payment': The terms 'performance condition' and 'service condition' are separately defined;
- IFRS 3 'Business Combinations': It is clarified that contingent consideration in a business acquisition that is not classified as equity, whether or not it falls within the scope of IAS 39 (or IFRS 9 once adopted), is subsequently measured at fair value at each reporting date, with changes in fair value recognised in profit or loss;
- IFRS 8 'Operating Segment': Disclosure of the judgments made by management in aggregating operating segments is required, including a description of the segments aggregated and the economic indicators assessed in determining that the aggregated segments share similar economic characteristics. Furthermore, a reconciliation of segment assets to the entity's total assets is required if the reconciliation is reported to the chief operating decision maker;
- IFRS 13 'Fair Value Measurement': It is clarified that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial;
- IAS 16 'Property, Plant and Equipment': It is clarified how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model;
- IAS 24 'Related Party Disclosures': It is clarified that an entity that provides key management personnel services to the reporting entity or to its parent ('the management entity') is a related party to the reporting entity and the amounts charged to it for services provided should be disclosed; and
- IAS 38 'Intangible Assets': It is clarified how the gross carrying amount and the accumulated amortisation are treated where an entity uses the revaluation model;

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

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

Annual Improvements to IFRSs 2012-2014 Cycle
The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2012-14 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- IFRS 5 'Non-current assets held for sale and discontinued operations': It is clarified that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. Therefore the asset (or disposal group) does not need to be reinstated in the financial statements, as if it had never been classified as 'held for sale' or 'held for distribution', simply because the manner of disposal has changed.
- IFRS 7 'Financial instruments: Specific guidance is added to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It is also clarified that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34 'Interim financial reporting'.
- IAS 19 'Employee benefits': When determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise.
- IAS 34 'Interim financial reporting': It is clarified that the reference in the standard to 'information disclosed elsewhere in the interim financial report' means some other statement (such as management commentary or risk report) that is available to users of the financial statements at the same time as the interim financial statements, requiring a cross - reference from the interim financial statements to the location of that information.

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

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

A number of new standards, amendments to existing standards and interpretations are effective after 2016, as they have not yet been endorsed by the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 7, Amendment – Disclosure Initiative (effective 1 January 2017, not yet endorsed by EU)
The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities.

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

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IAS 12, Amendment – Recognition of Deferred Tax Assets for Unrealized Losses (effective 1 January 2017, not yet endorsed by EU)
The amendment clarifies that (a) unrealised losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences (c) the estimate of probable future taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realised by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that deductible temporary differences may be reversed. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

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

IAS 40, Amendment – Transfers of Investment Property (effective 1 January 2018, not yet endorsed by EU)
The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence.

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

IFRS 2, Amendment – Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018, not yet endorsed by EU)
The amendment addresses a) the measurement of cash-settled share-based payments, b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings.
Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments It also clarifies that the liability of cash- settled share - based payment modified to equity-settled one is derecognised and the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted and any difference is recognised in profit or loss immediately. Furthermore, a share–based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature.

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

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Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

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

(i) Classification and measurement

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IFRS 9, Financial Instruments (effective 1 January 2018) (continued)
Business model assessment

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

The Bank's approach is to perform the business model assessment consistently with its operating model and the information provided to key management personnel. In making the above assessment the Bank will consider a number of factors including:
- the stated policies and objectives for each portfolio;
- how the performance of each portfolio is evaluated and reported;
- the risks associated with the performance of the business model and how those risks are managed;
- how managers are compensated; and
- past experience on how the cash flows from those portfolios were collected, expectations about future sales activity and how the Bank's stated objective for managing the financial assets is achieved.

SPPI assessment

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

Preliminary assessment of changes to the classification and measurement

The Bank conducted a preliminary high-level assessment of possible changes to the classification and measurement of its portfolios based on its existing business models as at 31 December 2016. The Bank's current expectation is that:
- loans and advances to banks and customers that are classified as loans and receivables and measured at amortised cost under IAS 39 would also be measured at amortised cost under IFRS 9;
- held-to-maturity investment securities measured at amortised cost under IAS 39 would in general also be measured at amortised cost under IFRS 9;
- debt securities classified as available-for-sale under IAS 39, may under IFRS 9 be measured at amortised cost or FVOCI depending on the business model within which they are held;

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IFRS 9, Financial Instruments (effective 1 January 2018) (continued)

- trading assets and derivative assets that are measured at FVTPL under IAS 39 would also be measured at FVTPL under IFRS 9; and
- equity securities classified as available-for-sale under IAS 39 would generally be measured at FVTPL under IFRS 9.

The above classification and measurement assessment may not be fully representative of the impact on the Bank's financial statements as at 1 January 2018 because IFRS 9 requires the business model assessment to be made based on the facts and circumstances that exist at the date of initial application. Moreover, the Bank's preliminary assessment has not included a detailed review of the contractual terms of all the financial assets which is in progress.

The final impact will depend on the structure of the Bank's portfolios on initial application, which may not be the same as at 31 December 2016.

(ii) Impairment of financial assets

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

The new impairment model will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. No impairment loss will be recognised on equity investments.

The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month ECL will be recognised for debt investment securities that are determined to have a low credit risk at the reporting date, and for all other financial assets for which there is no significant increase in credit risk since initial recognition. 12-month ECL are the portion of ECL that result from default events that are possible within the next 12 months after the reporting date. For financial assets that have experienced a significant increase in credit risk since initial recognition where no specific loss event has been identified, a loss allowance equal to lifetime expected credit losses will be recognised. The loss allowance for purchased or originated credit impaired financial assets will always be measured at an amount equal to lifetime ECL. Financial assets where 12-month ECL are recognised are considered to be in 'stage-1'; financial assets which have experienced a significant increase in credit risk are in 'stage-2' and financial assets that are credit impaired are in 'stage-3'.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IFRS 9, Financial Instruments (effective 1 January 2018) (continued)

The measurement of expected credit losses will be a probability-weighted average amount that will reflect the time value of money. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered.

(iii) Hedge accounting

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

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

(iv) IFRS 9 Implementation Program

A Group-wide IFRS 9 Program, was initiated in 2015 to ensure a high quality implementation in compliance with the Standard and additional published regulatory guidance.

Overall governance is through a central Program Management Office (PMO) that coordinates the implementation of the Program among the various stakeholders and is responsible for the day-to-day management tasks, as well as two Management Committees, namely the Steering Committee and the Technical Committee.

Reflecting the scale and complexity of the implementation plan, the Program is structured with various project teams dedicated to the various elements associated with the implementation of the Standard. These teams are supported by two external consultancy firms.

Up to date, the Bank has performed a gap analysis on data and processes and has completed the design phase of the Program. As part of the design phase of the implementation plan, program activities were focused on the definition of functional and technical requirements of the impairment model, setting out the business specifications for classification and measurement, and the designing of accounting policy changes. Educational workshops to the involved stakeholders across the Group are being continuously conducted on the impact of IFRS 9 in order to ensure that the new requirements are well understood.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IFRS 9, Financial Instruments (effective 1 January 2018) (continued)

The Program is due to progress to the build phase with its focus on the development of IFRS 9 methodologies and accounting policy decisions in key areas. On conclusion of the build phase, the Bank intends to undertake a parallel run of IAS 39 and IFRS 9 in order to ensure a seamless transition to the new standard on the required effective date, while testing, model validation and refinement activities will continue up to the end of 2017.

The most significant impact on the Bank's financial statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. However, management is not yet in a position to estimate reliably the expected impact, since the Bank is in the process of building models, assembling data and calibrating the impairment stage transfer criteria. Furthermore, potential changes to the prudential treatment of accounting provisions due to IFRS 9 that may affect regulatory capital, are yet to be determined. The impact is also dependent on finalising the classification assessment and the facts and circumstances from the date of initial application.

Management expects that this information will be disclosed in the 2017 Annual Report.

(v) Transition

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

Moreover, the following assessments will have to be made on the basis of facts and circumstances that exist at the date of initial application:
- the determination of the business model within which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and liabilities as measured at FVTPL; and
- the designation of certain investments in equity instruments not held-for-trading as at FVOCI.

IFRS 15, Revenue from Contracts with Customers (effective 1 January 2018) and IFRS 15 Amendments (effective 1 January 2018, not yet endorsed by EU)
IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognise and replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

IFRS 15, Revenue from Contracts with Customers (effective 1 January 2018) and IFRS 15 Amendments (effective 1 January 2018, not yet endorsed by EU) (continued)
IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

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

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

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

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

The Bank, is currently assessing the effect of IFRS 15, however the adoption of the standard is not expected to have a significant impact on the financial statements.

IFRS 16, Leases (effective 1 January 2019, not yet endorsed by EU)
IFRS 16, which supersedes IAS 17 Leases and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17. The new standard provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

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

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

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

2 Summary of significant accounting policies (continued)

2.2 Adoption of new and revised IFRS (continued)

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

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2017 and 1 January 2018, not yet endorsed by EU)
The amendments introduce key changes to two IFRSs following the publication of the results of the IASB's 2014-16 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- IFRS 12 'Disclosure of Interests in Other Entities': It is clarified that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale except for the requirement for summarized financial information. The amendment applies for annual periods beginning on or after 1 January 2017.
- IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organisations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss. The amendment applies for annual periods beginning on or after 1 January 2018.

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

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective 1 January 2018, not yet endorsed by EU)
IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognised the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt.

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

2 Summary of significant accounting policies (continued)

2.3 Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

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

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

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

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

2.4 Derivative financial instruments and hedge accounting

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

2 Summary of significant accounting policies (continued)

2.4 Derivative financial instruments and hedge accounting (continued)

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

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

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

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

(i) Fair value hedge

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

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

(ii) Derivatives that do not qualify for hedge accounting

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

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

2 Summary of significant accounting policies (continued)

2.5 Interest income and expense

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

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

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

2.6 Fees and commissions

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

2.7 Operating leases

Accounting for leases as lessee

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

2.8 Income taxation

(i) Current income tax

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

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

2 Summary of significant accounting policies (continued)

2.8 Income taxation (continued)

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

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

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

(ii) Deferred income tax

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

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

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

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

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

2.9 Employee benefits

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

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

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

2 Summary of significant accounting policies (continued)

2.10 Property, plant and equipment

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

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

	Useful economic life
Motor vehicles	5 years
Furniture, fixtures and office equipment	3 to 12 years
Leasehold property improvements	12 years
Computer hardware	3 to 12,5 years

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

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

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

2.11 Computer software

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

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

2.12 Impairment of non-financial assets

Non-financial assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities

2.13.1 Financial assets

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

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

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

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

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

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

(ii) Loans and receivables

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

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

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

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.1 Financial assets (continued)

(iii) Held-to-maturity financial assets

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

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

(iv) Available-for-sale financial assets

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

(v) Accounting treatment

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

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

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

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

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

2 Summary of significant accounting policies (continued)

2.13 Financial assets and liabilities (continued)

2.13.2 Financial liabilities

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

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

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

2.13.3 Derecognition

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

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

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

2.14 Impairment of financial assets

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

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

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

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

(i) Assets carried at amortised cost

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.14 Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

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

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

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

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

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

(ii) Available-for-sale assets

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.15 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

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

(ii) Securities lending

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

2.16 Fiduciary activities

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

2.17 Related party transactions

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

2.18 Trade and other payables

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

2.19 Provisions

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

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

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

2 Summary of significant accounting policies (continued)

2.20 Due to banks and due to customers

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

2.21 Share capital

Ordinary shares are classified as equity.

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

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

2.22 Offsetting financial instruments

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

2.23 Financial guarantees

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.24 Cash and cash equivalents

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

2.25 Investments in subsidiaries

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

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised through profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

3 Critical accounting estimates and judgments in applying accounting policies

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

Impairment losses on loans and advances to customers

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

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

At 31 December 2016, if the recoverable amounts increased by 10%, provision for impairment losses on loans and advances to customers would have been €5.389 thousand (2015: €5.397 thousand) lower, while a 10% decrease would result in €4.996 thousand (2015: €5.416 thousand) increase in provisions for impairment losses.

4 Financial risk management

4.1 Use of financial instruments

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.1 Use of financial instruments (continued)

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

4.2 Financial risk factors

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

4.2.1 Credit risk

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

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

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

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

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

(b) Credit risk measurement – Loans and advances

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

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Risk limit control and mitigation policies – Collateral

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

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

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

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

4.2.1.1 Maximum exposure to credit risk before collateral held

The table below represents the maximum credit risk exposure of the Bank at 31 December 2016 and 2015, without taking into account any collateral held:

	2016	2015
	€'000	€'000
Credit risk exposures relating to on-balance sheet assets:		
Loans and advances to banks	**2.298.543**	1.554.848
Derivative financial instruments	**10.472**	2.765
Loans and advances to customers:		
Retail lending:		
- Mortgage	**11.750**	11.561
- Consumer	**5.948**	4.871
- Credit cards	**473**	356
Wholesale lending:		
- Large corporate	**878.789**	873.399
- Wealth management	**259.255**	254.838
- International business banking	**661.250**	751.966
Available-for-sale financial assets - debt securities	**235.192**	260.471
Held-to-maturity investments	**337.640**	366.081
Other assets	**238**	437
Total	**4.699.550**	4.081.593
Credit risk exposures relating to off-balance sheet items (Note 27):		
Guarantees and letters of credit	**122.286**	113.305
Approved unutilised credit facilities	**283.945**	197.055
Total	**406.231**	310.360

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Loans and advances to banks

The credit quality of placements and settlement balances with banks and reverse repurchase agreements receivable from banks, based on rating agencies' counterparty country ratings, is graded as follows as at 31 December 2016 and 2015:

	2016	2015
	€'000	€'000
Aaa to Aa3	**95.103**	101.344
A1 to A3	**114.068**	81.670
Baa1 to Baa3	**5.839**	61.664
Ba1 to Ba3	**57.006**	11.161
Caa1 to Caa3 (1)	**2.026.071**	1.298.024
Not rated	**456**	985
	2.298.543	1.554.848

(1) Loans and advances to banks include reverse repurchase agreements of €1.928.817 thousand (2015: €1.237.351 thousand) fully secured by ECB Eligible bonds majority of those being EFSF bonds (Note 13).

4.2.1.3 Loans and advances to customers

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

(a) Credit quality of loans and advances to customers

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

31 December 2016	Non-impaired: Neither past due nor impaired €'000	Non-impaired: Past due but not impaired €'000	Impaired €'000	Total gross amount €'000	Impairment allowance €'000	**Total net amount €'000**
Retail lending:						
- Mortgage	11.767	-	-	11.767	(17)	**11.750**
- Consumer	5.936	59	48	6.043	(95)	**5.948**
- Credit card	456	22	13	491	(18)	**473**
Wholesale lending:						
- Large corporate	833.160	10.747	90.040	933.947	(55.158)	**878.789**
- Wealth management	237.722	3.928	42.244	283.894	(24.639)	**259.255**
- International business banking	660.797	873	8	661.678	(428)	**661.250**
Total	**1.749.838**	**15.629**	**132.353**	**1.897.820**	**(80.355)**	**1.817.465**
Value of collateral	**1.620.293**	**12.340**	**93.216**	**1.725.849**		

31 December 2015	Non-impaired: Neither past due nor impaired €'000	Non-impaired: Past due but not impaired €'000	Impaired €'000	Total gross amount €'000	Impairment allowance €'000	**Total net amount €'000**
Retail lending:						
- Mortgage	11.566	-	-	11.566	(5)	**11.561**
- Consumer	4.731	150	15	4.896	(25)	**4.871**
- Credit card	350	9	-	359	(3)	**356**
Wholesale lending:						
- Large corporate	816.773	8.798	92.800	918.371	(44.972)	**873.399**
- Wealth management	227.946	6.571	41.446	275.963	(21.125)	**254.838**
- International business banking	750.420	1.916	9	752.345	(379)	**751.966**
Total	**1.811.786**	**17.444**	**134.270**	**1.963.500**	**(66.509)**	**1.896.991**
Value of collateral	**1.668.665**	**15.248**	**108.019**	**1.791.932**		

Loans and advances neither past due nor impaired

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

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

	2016 €'000	2015 €'000
Strong	**1.517.912**	1.571.297
Satisfactory risk	**158.193**	162.280
Watch list	**73.733**	78.209
Total	**1.749.838**	1.811.786

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

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

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

31 December 2015	Retail lending			Mortgage lending			
	Mortgage €'000	Consumer €'000	Credit card €'000	Large corporate €'000	Wealth management €'000	International business banking €'000	**Total €'000**
Up to 29 days	-	62	9	7.889	5.906	1.872	**15.738**
30 to 59 days	-	81	-	377	419	1	**878**
60 to 89 days	-	7	-	532	246	43	**828**
90 to 179 days	-	-	-	-	-	-	-
180 to 360 days	-	-	-	-	-	-	-
More than 360 days	-	-	-	-	-	-	-
Total	**-**	**150**	**9**	**8.798**	**6.571**	**1.916**	**17.444**
Value of collateral	**-**	**18**	**-**	**7.332**	**6.090**	**1.808**	**15.248**

<u>Loans and advances past due and impaired</u>

As at 31 December 2016, loans and advances past due and impaired amounted to €132.353 thousand (2015: €134.270 thousand).

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Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

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

The Bank holds diversified portfolios across markets and countries and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.
The tables in Note 4.2.1.5 break down the Bank's exposure into loans and advances to customers at their net amounts, by product line, industry and geographical region.

(c) Forbearance

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

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

	2016 €'000	2015 €'000
Forbearance measures:		
Interest only schedule	**29.965**	40.661
Reduced payment schedule	**29.778**	27.713
Term extension	**52.702**	55.853
Arrears capitalisation	**2.742**	2.751
Other	**10.702**	3.863
Total amount net of impairment allowance	**125.889**	130.841

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

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

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Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance (continued)

	31 December 2015		
	Total loans & advances	Forborne loans & advances	% of forborne loans & advances to total loans & advances
	€'000	€'000	
Neither past due nor impaired	1.811.786	103.936	5,7
Past due but not impaired	17.444	2.300	13,2
Past due and impaired	134.270	34.592	25,8
Total gross amount	**1.963.500**	**140.828**	**7,2**
Impairment allowance	**(66.509)**	**(9.987)**	
Total net amount	**1.896.991**	**130.841**	**6,9**
Collateral received	**1.790.932**	**132.959**	

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

	2016	2015
	€'000	€'000
Retail lending:		
- Mortgage	**285**	-
- Consumer	**39**	-
- Credit cards	**-**	-
Wholesale lending:		
- Large corporate	**76.543**	89.156
- Wealth management	**49.022**	41.685
- International business banking	**-**	-
Total amount net of impairment allowance	**125.889**	130.841

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

	2016	2015
	€'000	€'000
Cyprus	**121.789**	122.934
Other European countries	**3.015**	7.907
Other countries	**1.085**	-
Total amount net of impairment allowance	**125.889**	130.841

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2016 and 2015 based on Moody's ratings or their equivalent:

31 December 2016

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

31 December 2015

	Available-for-sale debt securities €'000	Held-to-maturity investments €'000	**Total €'000**
Aaa	45.805	26.035	**71.840**
Aa1 to Aa3	-	34.301	**34.301**
A1 to A3	-	2.156	**2.156**
Baa1 to Baa3	-	9.557	**9.557**
Ba1 to Ba3	76.929	-	**76.929**
B1 to B3	25.806	294.032	**319.838**
Caa1 to Caa3	101.043	-	**101.043**
Not rated	10.888	-	**10.888**
Total	**260.471**	**366.081**	**626.552**

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Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

(a) Geographical sectors

The following table analyses the Bank's main credit exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by geographical region as at 31 December 2016 and 2015. For this table, the Bank has allocated exposures to regions based on the country of activity/economic interest of counterparties.

	31 December 2016			
	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets				
Loans and advances to banks	50.522	1.996.503	251.518	**2.298.543**
Derivative financial instruments	494	9.806	172	**10.472**
Loans and advances to customers:				
Retail lending:				
- Mortgage	11.750	-	-	**11.750**
- Consumer	5.946	2	-	**5.948**
- Credit cards	471	2	-	**473**
Wholesale lending:				
- Large corporate	440.586	412.658	25.545	**878.789**
- Wealth management	171.916	67.595	19.744	**259.255**
- International business banking	125.909	90.707	444.634	**661.250**
Available-for-sale financial assets – debt securities	9.192	175.508	50.492	**235.192**
Held-to-maturity investments	292.314	45.326	-	**337.640**
Other assets	163	46	29	**238**
Total	**1.109.263**	**2.798.153**	**792.134**	**4.699.550**
Off-balance sheet items				
Guarantees and letters of credit	116.241	4.960	1.085	**122.286**
Approved unutilised credit facilities	252.638	23.000	8.307	**283.945**
Total	**368.879**	**27.960**	**9.392**	**406.231**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2015			
	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets				
Loans and advances to banks	40.491	1.402.082	112.275	**1.554.848**
Derivative financial instruments	446	2.319	-	**2.765**
Loans and advances to customers:				
Retail lending:				
- Mortgage	11.561	-	-	**11.561**
- Consumer	4.871	-	-	**4.871**
- Credit cards	355	1	-	**356**
Wholesale lending:				
- Large corporate	414.925	440.380	18.094	**873.399**
- Wealth management	165.229	62.675	26.934	**254.838**
- International business banking	153.056	131.782	467.128	**751.966**
Available-for-sale financial assets – debt securities	13.392	196.727	50.352	**260.471**
Held-to-maturity investments	294.032	72.049	-	**366.081**
Other assets	135	291	11	**437**
Total	**1.098.493**	**2.308.306**	**674.794**	**4.081.593**
Off-balance sheet items				
Guarantees and letters of credit	105.703	6.158	1.444	**113.305**
Approved unutilised credit facilities	159.531	16.077	21.447	**197.055**
Total	**265.234**	**22.235**	**22.891**	**310.360**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

The following table analyses the Bank's main credit risk exposure of balance sheet assets and off balance sheet items at their carrying amounts, as categorised by the industry sectors of the Bank's counterparties as at 31 December 2016 and 2015:

31 December 2016

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Construction €'000	Manufacturing €'000	Other €'000	**Total €'000**
On-balance sheet assets								
Loans and advances to banks	-	-	2.298.543	-	-	-	-	**2.298.543**
Derivative financial instruments	-	181	9.804	-	-	483	4	**10.472**
Loans and advances to customers:								
Retail lending:								
- Mortgage	-	-	-	11.750	-	-	-	**11.750**
- Consumer	-	1.293	-	4.643	-	12	-	**5.948**
- Credit cards	-	79	-	394	-	-	-	**473**
Wholesale lending:								
- Large corporate	-	761.473	-	21.477	45.020	49.535	1.284	**878.789**
- Wealth management	-	143.203	-	113.058	2.867	85	42	**259.255**
- International business banking	-	549.111	-	81.570	1.432	29.136	1	**661.250**
Available-for-sale financial assets								
- debt securities	61.507	-	51.930	-	-	-	121.755	**235.192**
Held-to-maturity investments	292.314	-	-	-	-	-	45.326	**337.640**
Other assets	-	180	-	-	-	-	58	**238**
Total	**353.821**	**1.455.520**	**2.360.277**	**232.892**	**49.319**	**79.251**	**168.470**	**4.699.550**

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

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Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2015							
	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets								
Loans and advances to banks	-	-	1.554.848	-	-	-	-	**1.554.848**
Derivative financial instruments	-	25	2.314	1	-	425	-	**2.765**
Loans and advances to customers:								
Retail lending:								
- Mortgage	-	-	-	11.561	-	-	-	**11.561**
- Consumer	-	1.587	-	3.274	-	10	-	**4.871**
- Credit cards	-	32	-	323	-	1	-	**356**
Wholesale lending:								
- Large corporate	-	771.129	-	24.972	24.019	50.903	2.376	**873.399**
- Wealth management	-	141.309	-	110.516	2.744	227	42	**254.838**
- International business banking	-	629.011	-	89.816	5	33.132	2	**751.966**
Available-for-sale financial assets - debt securities	65.674	-	78.382	-	-	-	116.415	**260.471**
Held-to-maturity investments	294.032	-	-	-	-	-	72.049	**366.081**
Other assets	-	135	263	-	-	-	39	**437**
Total	**359.706**	**1.543.228**	**1.635.807**	**240.463**	**26.768**	**84.698**	**190.923**	**4.081.593**

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	**Total €'000**
Off-balance sheet items					
Guarantees and letters of credit	1	4.387	6.014	102.903	**113.305**
Approved unutilised credit facilities	-	95	27.107	169.853	**197.055**
Total	**1**	**4.482**	**33.121**	**272.756**	**310.360**

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk

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

(a) Interest rate risk

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

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

(b) Currency risk

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

(c) Equity price risk

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

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

(d) VaR summary for 2016 and 2015

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

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

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

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

(d) VaR summary for 2016 and 2015 (continued)

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

Average VaR by risk type:

	2016	2015
	€'000	€'000
Interest Rate Risk	**596**	626
Foreign Exchange Risk	**9**	10
Equities Risk	**39**	9
Total VaR	**591**	627

The VaR calculation is applied to all positions.

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

4.2.3 Liquidity risk

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

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

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

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

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below presents maturity analysis of assets as at 31 December 2016 and 2015, based on their contractual undiscounted cash flows. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

31 December 2016

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

31 December 2015

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
- Cash and balances with central banks	39.896	-	-	-	**39.896**
- Loans and advances to banks	1.546.850	-	6.267	2.000	**1.555.117**
- Loans and advance to customers	283.686	50.968	160.002	1.633.708	**2.128.364**
- Available-for-sale investments	844	4.893	39.844	247.954	**293.535**
- Held-to-maturity investments	407	44.438	8.270	368.153	**421.268**
- Derivative financial instruments	2.268	12	85	400	**2.765**
- Other assets	302	-	-	135	**437**
	1.874.253	**100.311**	**214.468**	**2.252.350**	**4.441.382**

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

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

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

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

31 December 2016

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

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

31 December 2015

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Non-derivative liabilities:					
- Due to other banks	376.225	30.251	23.844	71.828	**502.148**
- Due to customers	1.932.302	584.895	730.266	3.128	**3.250.591**
- Other liabilities	30.052	513	2.575	-	**33.140**
	2.338.579	**615.659**	**756.685**	**74.956**	**3.785.879**
Derivative financial instruments:	**39**	**8**	**83**	**397**	**527**

Off-balance sheet items	Less than 1 year	Over 1 year	**Total**
	€'000	€'000	**€'000**
Guarantees and letters of credit	113.305	-	**113.305**
Approved unutilised credit facilities	197.055	-	**197.055**
Capital expenditure	212	-	**212**
Operating lease commitments	1.114	1.082	**2.196**
	311.686	**1.082**	**312.768**

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

4 Financial risk management (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

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

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

4.3 Off balance sheet instruments

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

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

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

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

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

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

4 Financial risk management (continued)

4.4 Capital management

	2016 €'000	2015 €'000
Ordinary shareholders' equity	**409.456**	364.027
Less: other regulatory adjustments	**(2.785)**	(2.232)
Total Tier 1 capital	**406.671**	361.795
Tier 2 capital	**24.000**	46.244
Total regulatory capital	**430.671**	408.039
Risk Weighted Assets	**1.436.063**	1.335.061

	2016 %	2015 %
Ratios:		
Core Tier 1	**28,3**	27,1
Tier 1	**28,3**	27,1
Tier 2	**1,7**	3,5
Capital Adequacy Ratio	**30,0**	30,6

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

Tier 2 capital represents subordinated debt and valuation differences eligible as Tier 2 as at 31 December.

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

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

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

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

4 Financial risk management (continued)

4.4 Capital management (continued)

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

The level of the leverage ratio with reference date 31 December 2016 amounts to 12,4% (2015: 11,6%), according to the transitional definition of Tier I capital, significantly over the 3% minimum threshold applied by the competent authorities.

4.5 Financial assets and liabilities measured at fair value

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

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

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

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

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

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

4 Financial risk management (continued)

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

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

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

The fair value hierarchy categorisation of the financial assets and liabilities carried at fair value as at 31 December 2016 and 2015 is presented in the following tables. The below fair value measurements represent recurring fair value measurements.

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

	At 31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€000**	**€'000**
Financial assets measured at fair value:				
Derivative financial instruments held for trading	-	2.765	-	**2.765**
Available-for-sale investment securities	261.505	-	-	**261.505**
Total financial assets measured at fair value	**261.505**	**2.765**	**-**	**264.270**
Financial liabilities measured at fair value:				
Derivative financial instruments held for trading	-	527	-	**527**
Total financial liabilities measured at fair value	**-**	**527**	**-**	**527**

4 Financial risk management (continued)

4.6 Financial instruments not carried at fair value

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

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

	At 31 December 2015				
	Level 1 €'000	Level 2 €'000	Level 3 €000	Total Fair Value- for disclosure purposes €000	Carrying amount €'000
Financial assets measured at amortised cost					
Loans and advances to banks	-	1.554.848	-	**1.554.848**	**1.554.848**
Loans and advances to customers	-	-	1.896.991	**1.896.991**	**1.896.991**
Held-to-maturity investments	374.321	-	-	**374.321**	**366.081**
Other financial assets	-	437	-	**437**	**437**
Financial liabilities measured at amortised cost					
Due to other banks	-	492.606	-	**492.606**	**492.606**
Due to customers	-	3.240.685	-	**3.240.685**	**3.240.685**
Other financial liabilities	-	33.140	-	**33.140**	**33.140**

4.7 Fiduciary activities

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

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management (continued)

4.8 Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Bank currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

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

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Notes to the financial statements

4 Financial risk management (continued)

4.8 Offsetting of financial assets and financial liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2015:

	Gross amounts before offsetting in the statement of financial position (a)	Gross amounts set off in the statement of financial position (b)	Net amount after offsetting in the statement of financial position (c) = (a) - (b)	Amounts subject to master netting and similar arrangements not set off in the statement of financial position		Net amount of exposure (c) - (d) - (e)
				Financial instru-ments (d)	Cash collateral received (e)	
	€000	€000	€000	€000	€000	€000
ASSETS						
Loans and advances to banks	1.554.848	-	1.554.848	14.962	-	1.539.886
Loans and advances to customers	1.896.991	-	1.896.991	-	-	1.896.991
TOTAL ASSETS SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**3.451.839**	**-**	**3.451.839**	**14.962**	**-**	**3.436.877**
LIABILITIES						
Due to other banks	492.606	-	492.606	14.962	-	477.64 4
Due to customers	3.240.685	-	3.240.685	-	-	3.240.685
TOTAL LIABILITIES SUBJECT TO OFFSETTING, MASTER NETTING AND SIMILAR ARRANGEMENT	**3.733.291**	**-**	**3.733.291**	**14.962**	**-**	**3.718.329**

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

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

5 Net interest income

	2016 €'000	2015 €'000
Interest income		
Interest from loans and advances to banks	**10.056**	5.317
Interest from derivatives	**3.452**	1.219
Interest from loans and advances to customers	**72.284**	78.644
Interest from available-for-sale financial assets	**10.848**	12.997
Interest from held-to-maturity investments (Note 18)	**12.568**	11.631
Other interest income	**2**	1
Total interest income	**109.210**	109.809
Interest expense		
Interest on due to other banks	**(7.923)**	(10.551)
Interest on derivatives	**(474)**	(364)
Interest on customer deposits	**(32.113)**	(33.664)
Other interest expense	**(4)**	(5)
Total interest expense	**(40.514)**	(44.584)
Net interest income	**68.696**	65.225

6 Net banking fee and commission income

	2016 €'000	2015 €'000
Banking fee and commission income		
Bank transfer commissions	**8.477**	8.476
Other fees and commissions	**21.633**	17.337
Total banking fee and commission income	**30.110**	25.813
Banking fee and commission expense		
Fees on lien agreements (Note 30)	**(2.037)**	(2.553)
Other fees and commissions	**(6.654)**	(5.272)
Total banking fee and commission expense	**(8.691)**	(7.825)
Net banking fee and commission income	**21.419**	17.988

7 Net trading income

	2016 €'000	2015 €'000
Gains less losses on financial instruments at fair value through profit or loss	**263**	90
	263	90

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Notes to the financial statements

8 Net gains/losses from investment securities

	2016	2015
	€'000	€'000
Gains less losses on disposal of available-for-sale financial assets	261	315
Losses on impairment of available-for-sale equity investments	(535)	(8)
Net (losses)/gains from investment securities	(274)	307

9 Staff costs

	2016	2015
	€'000	€'000
Salaries and other related costs	10.904	10.079
Social insurance and other costs	2.165	1.856
Directors' fees and remuneration	766	778
Retirement benefit costs – defined contributions scheme	768	800
	14.603	13.513

The average number of employees of the Bank during the year 2016 was 283 (2015: 248).

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

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

10 Other operating expenses

	2016	2015
	€'000	€'000
Amortisation of intangible assets (Note 19)	512	562
Depreciation of property, plant and equipment (Note 20)	1.520	1.197
Loss/(gain) on disposal/write down of intangible assets and property, plant and equipment	6	(13)
Operating lease rentals	1.285	1.193
Repairs and maintenance	1.844	1.615
Auditors' remuneration for statutory audit	54	63
Auditors' remuneration for other assurance and non-assurance engagements	60	118
Auditors' remuneration for tax services	67	42
Professional fees	691	749
Advertising and promotion	1.514	1.122
Other administrative expenses	3.956	2.859
	11.509	9.507

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Notes to the financial statements

11 Income tax expense

	2016 €'000	2015 €'000
Current tax:		
- Corporation tax	**6.250**	6.360
- Withholding tax	**57**	95
Total current tax	**6.307**	6.455
Deferred tax charge/(credit)	**42**	(109)
Total income tax expense	**6.349**	6.346

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

	2016 €'000	2015 €'000
Profit before tax and government levies	**49.667**	50.243
Tax calculated at the applicable corporation tax rate of 12,5%	**6.208**	6.280
Tax effect of expenses not deductible for tax purposes	**503**	368
Tax effect of allowances and income not subject to tax	**(461)**	(288)
Withholding tax	**57**	95
Deferred tax charge/(credit)	**42**	(109)
Income tax expense	**6.349**	6.346

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

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

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

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

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

There is no income tax effect relating to components of other comprehensive income (2015: €nil).

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Notes to the financial statements

11 Income tax expense (continued)

Deferred income tax:

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

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

	Differences between wear & tear and depreciation €'000	**Total €'000**
Balance at 1 January 2015	119	**119**
Credited to income statement	(109)	**(109)**
Balance at 1 January 2016	10	**10**
Charged to income statement	42	**42**
Balance at 31 December 2016 (Note 24)	52	**52**

12 Cash and balances with central banks

	2016 €'000	2015 €'000
Cash in hand	**6.115**	6.430
Balances with central banks	**162.263**	33.466
	168.378	39.896
of which:		
Mandatory deposits with central banks	**37.637**	31.724

Cash and balances with central banks are classified as current.

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

13 Loans and advances to banks

	2016 €'000	2015 €'000
Reverse repurchase agreements receivables (1)	**1.928.817**	1.237.351
Placements with banks (2)	**346.636**	165.829
Settlement balances with banks	**23.090**	151.668
	2.298.543	1.554.848
Maturity analysis:		
Current:		
- on demand up to 7 days	**656.182**	215.966
- between 7 days and three months	**1.580.361**	1.330.760
- between three months and one year	**60.000**	6.122
	2.296.543	1.552.848
Non-current	**2.000**	2.000
	2.298.543	1.554.848

(1) The reverse repurchase agreements receivables represent money market placements fully secured by ECB Eligible bonds. The majority of these are bonds issued by the European Financial Stability Fund (EFSF) amounting to approximately €1,9 billion (2015: €1,2 billion).

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

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

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

14 Investment in subsidiaries

The subsidiary company and its principal activity are described below:

Name	*Participation*	*Principal activities*	**2016** **€'000**	2015 €'000
Foramonio Ltd	100%	Investing activities	**1**	1

Foramonio Ltd is registered and operates in Cyprus.

This entity has been set up to acquire properties from customers in settlement of their obligations with the Bank.

15 Derivative financial instruments

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

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

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

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

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

15 Derivative financial instruments (continued)

	Fair Values			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	€'000	€'000	€'000	€'000
Derivatives held for trading				
Foreign exchange derivatives	**136**	**79**	120	130
Cross currency / interest rate swaps	**10.336**	**1.323**	2.645	397
	10.472	**1.402**	2.765	527

	Fair Values			
	2016		2015	
	Assets	Liabilities	Assets	Liabilities
	€'000	€'000	€'000	€'000
Maturity analysis:				
Current	**9.806**	**735**	2.366	130
Non-current	**666**	**667**	399	397
	10.472	**1.402**	2.765	527

(a) Cross currency/interest rate swaps

The notional principal amounts of the outstanding cross currency/interest rate swap contracts at 31 December 2016 were €87,4 million (2015: €97,6 million).

(b) Forward foreign exchange contracts

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 December 2016 were €9,4 million (2015: €17,9 million).

(c) Foreign exchange options

The notional principal amounts of foreign exchange options at 31 December 2016 were €4,9 million (2015: €8,0 million).

(d) Foreign exchange swaps

The notional principal amounts of foreign exchange options at 31 December 2016 were €302,5 million (2015: €318,2 million).

16 Loans and advances to customers

	2016 €'000	2015 €'000
Retail lending:		
- Mortgages	**11.767**	11.566
- Consumer	**6.043**	4.896
- Credit cards	**490**	359
	18.300	16.821
Wholesale lending:		
- Large corporate	**933.948**	918.371
- Wealth management	**283.894**	275.963
- International business banking	**661.678**	752.345
	1.879.520	1.946.679
Total	**1.897.820**	1.963.500
Gross loans and advances to customers	**1.897.820**	1.963.500
Less: provision for impairment losses	**(80.355)**	(66.509)
Net amount of loans and advances to customers	**1.817.465**	1.896.991

	2016 €'000	2015 €'000
Maturity analysis:		
Current	**422.095**	346.690
Non-current	**1.395.370**	1.550.301
	1.817.465	1.896.991

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

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

	31 December 2015		
	Wholesale lending €'000	Retail lending €'000	Total €'000
Balance at 1 January	71.587	251	**71.838**
Impairment loss for the year, net of write backs	10.566	(218)	**10.348**
Foreign exchange	354	-	**354**
Amounts written off (previously provided)	(16.031)	-	**(16.031)**
Balance at 31 December	**66.476**	**33**	**66.509**

In 2015 impairment losses on loans and advances charged to the income statement were net of an amount of €354 thousand that related to loans that were written off in prior periods and recovered during 2015. In 2016 no loans that were written off in prior years were recovered.

Interest income on impaired loans and advances to customers accrued during the year amounted to €4.507 thousand (2015: €6.898 thousand).

16 Loans and advances to customers (continued)

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

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

17 Available-for-sale financial assets

	2016 €'000	2015 €'000
Analysis by issuer:		
Issued by public organisations – government bonds in public government organisations:		
- Russia	**45.061**	44.922
- Cyprus	**9.192**	13.392
- Croatia	**7.254**	7.360
	61.507	65.674
Issued by other issuers:		
- Banks	**52.651**	79.341
- Other	**121.853**	116.490
	174.504	195.831
Total	**236.011**	261.505
Analysis by type:		
Equity	**819**	1.034
Debt	**235.192**	260.471
	236.011	261.505
Maturity analysis:		
Current	**25.914**	33.631
Non-current	**210.097**	227.874
	236.011	261.505

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

	2016 €'000	2015 €'000
Net book value at 1 January	**261.505**	526.464
Additions	**-**	275.617
Disposals and redemptions	**(33.384)**	(560.538)
Amortisation of discounts/premiums and interest	**(1.692)**	(1.850)
Net gains from changes in fair values	**7.064**	1.342
Foreign exchange	**2.518**	20.470
Net book value at 31 December	**236.011**	261.505

All available-for-sale financial assets are listed.

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

Eurobank Cyprus Ltd

Notes to the financial statements

17 Available-for-sale financial assets (continued)

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

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

	2016	2015
	€'000	€'000
Balance at 1 January	**(388)**	(1.425)
Net gains from changes in fair value	**7.064**	1.342
Net gains/(losses) from investment securities transfer to Income Statement due to disposal and due to impairment	**274**	(305)
Balance at 31 December	**6.950**	(388)

18 Held-to-maturity investments

	2016	2015
	€'000	€'000
Cyprus government bonds	**292.314**	294.032
Other debt securities	**45.326**	72.049
	337.640	366.081

	2016	2015
	€'000	€'000
Maturity analysis:		
Current	**60.232**	41.720
Non-current	**277.408**	324.361
	337.640	366.081

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

	2016	2015
	€'000	€'000
Net book value at 1 January	**366.081**	179.965
Additions	**40.291**	244.583
Maturities and Redemptions	**(68.109)**	(62.625)
Interest accrued (Note 5)	**12.568**	11.631
Interest received	**(13.191)**	(7.473)
Net book value at 31 December	**337.640**	366.081

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

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Notes to the financial statements

19 Intangible assets

	Computer licences & software €'000	**Total €'000**
At 1 January 2015		
Cost	4.560	**4.560**
Accumulated amortisation	(2.478)	**(2.478)**
Net book amount	**2.082**	**2.082**
Year ended 31 December 2015		
At 1 January	2.082	**2.082**
Additions	712	**712**
Amortisation charge (Note 10)	(562)	**(562)**
At 31 December	**2.232**	**2.232**
At 31 December 2015		
Cost	5.272	**5.272**
Accumulated amortisation	(3.040)	**(3.040)**
Net book amount	**2.232**	**2.232**
Year ended 31 December 2016		
At 1 January	2.232	**2.232**
Additions	1.065	**1.065**
Amortisation charge (Note 10)	(512)	**(512)**
At 31 December	**2.785**	**2.785**
At 31 December 2016		
Cost	6.337	**6.337**
Accumulated amortisation	(3.552)	**(3.552)**
Net book amount	**2.785**	**2.785**

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Notes to the financial statements

20 Property, plant and equipment

	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	**Total €'000**
At 1 January 2015				
Cost	7.925	186	4.214	**12.325**
Accumulated depreciation	(2.386)	(163)	(2.527)	**(5.076)**
Net book amount	**5.539**	**23**	**1.687**	**7.249**
Year ended 31 December 2015				
At 1 January	5.539	23	1.687	**7.249**
Additions	491	2	333	**826**
Disposals and write offs	(6)	-	(1)	**(7)**
Depreciation charge (Note 10)	(675)	(9)	(513)	**(1.197)**
At 31 December	**5.349**	**16**	**1.506**	**6.871**
At 31 December 2015				
Cost	8.407	128	4.465	**13.000**
Accumulated depreciation	(3.058)	(112)	(2.959)	**(6.129)**
Net book amount	**5.349**	**16**	**1.506**	**6.871**
Year ended 31 December 2016				
At 1 January	5.349	16	1.506	**6.871**
Additions	1.168	-	764	**1.932**
Disposals and write offs	-	-	(13)	**(13)**
Depreciation charge (Note 10)	(980)	(8)	(532)	**(1.520)**
At 31 December	**5.537**	**8**	**1.725**	**7.270**
At 31 December 2016				
Cost	9.575	128	4.743	**14.446**
Accumulated depreciation	(4.038)	(120)	(3.018)	**(7.176)**
Net book amount	**5.537**	**8**	**1.725**	**7.270**

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

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

	2016 €'000	2015 €'000
Net book amount	**13**	7
(Loss)/profit on sale of property, plant and equipment (Note 10)	**(6)**	13
Proceeds from sale of property, plant and equipment as per cash flow statement	**7**	20

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Notes to the financial statements

21 Other assets

	2016 €'000	2015 €'000
Prepaid expenses	**459**	373
Other assets	**238**	437
	697	810

	2016	2015
Maturity analysis:	**€'000**	€'000
Current	**104**	312
Non-current	**593**	498
	697	810

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

22 Due to other banks

	2016 €'000	2015 €'000
Deposits from other banks	**381.327**	402.297
Settlement balances with other banks	**100.997**	50.268
Subordinated debt (Note 30(i))	**40.035**	40.041
	522.359	492.606
Maturity analysis:		
Current:		
- on demand up to 7 days	**120.172**	55.334
- 7 days up to 3 months	**280.695**	351.054
- 3 months to 1 year	**52.245**	23.822
	453.112	430.210
Non-current:		
- 1 to 5 years	**40.418**	16.739
- after 5 years	**28.829**	45.657
	69.247	62.396
	522.359	492.606

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

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

23 Due to customers

	2016 €'000	2015 €'000
Current accounts	**1.861.314**	1.269.179
Notice accounts	**6.267**	7.306
Term deposits	**2.040.681**	1.964.200
	3.908.262	3.240.685
Maturity analysis:		
- up to 1 month	**2.676.445**	1.931.967
- between 1 month and three months	**539.015**	583.525
- between three months and one year	**686.546**	722.086
- between one year and five years	**4.833**	3.107
- more than five years	**1.423**	-
	3.908.262	3.240.685

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

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2016 amounted to €789 million (2015: €817 million).

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

Special levy on total deposits is imposed by legislation to all Banks and Credit Institutions operating in Cyprus.

Until September 2015 the levy on deposits was 0,15%, calculated on the previous year-end deposits. From September 2015 it is calculated on the previous quarter-end deposits. The levy is payable in quarterly instalments. The government levy on customer deposits for the year ended 31 December 2016 amounted to €5.227 thousand (2015: €4.796 thousand).

24 Other liabilities

	2016 €'000	2015 €'000
Current income tax liability	**1.070**	1.005
Deferred tax liability (Note 11)	**52**	10
Other liabilities and accruals [1]	**36.661**	33.140
	37.783	34.155

	2016 €'000	2015 €'000
Maturity analysis:		
Current	**37.731**	34.145
Non-current	**52**	10
	37.783	34.155

[1]Other liabilities and accruals include commissions and consultancy fees of €291 thousand (2015: €426 thousand) payable to Eurobank Ergasias S.A. (Note 30 (i)).

25 Share capital

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

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

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

There were no changes in the Bank's share capital during the years ended 31 December 2016 and 2015.

All the shares have the same rights.

Dividends

The Board of Directors at a Board meeting of 23 January 2015, proposed at a Shareholders' Extraordinary General Meeting which took place on 23 January 2015 after the Board meeting, the payment of a dividend distribution of €265,9 million or €221,4 thousand per share. The Board of Directors proposal was approved at the shareholders' meeting and the dividend was executed on the same day.

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

26 Operating lease commitments – where the Bank is the lessee

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

	2016 €'000	2015 €'000
Not later than one year	**986**	1.114
Later than one year and not later than five years	**823**	1.082
	1.809	2.196

27 Contingencies and commitments

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

	2016	2015
	€'000	€'000
Contingent liabilities:		
Guarantees	**114.418**	108.924
Other	**7.868**	4.381
	122.286	113.305
Commitments:		
Approved unutilised credit facilities	**283.945**	197.055

Capital commitments

As at 31 December 2016 commitments for contracted capital expenditures for the Bank amount to €440 thousand (2015: €212 thousand).

Legal proceedings

As at 31 December 2016 and 2015 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

28 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts, including fiduciary assets, with fair value amounting to approximately €1.398.094 thousand (2015: €1.049.198 thousand).

29 Cash and cash equivalents on cash flow statement

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

	2016	2015
	€'000	€'000
Cash in hand (Note 12)	**6.115**	6.430
Balances with banks	**2.236.543**	1.546.726
	2.242.658	1.553.156

30 Related party transactions and balances

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

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

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

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

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

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Notes to the financial statements

30 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2016 €'000	2015 €'000	**2016 €'000**	2015 €'000	**2016 €'000**	2015 €'000
Balances:						
Loans and advances to banks (1)	**1.975.916**	1.257.934	**80**	686	-	-
Loans and advances to customers (2)	-	-	**306.145**	347.245	**742**	1.257
Derivative financial instruments – Assets	**9.802**	2.313	-	-	-	-
Other assets	-	-	**17**	-	-	-
Due to other banks (3)	**432.395**	471.197	-	-	-	-
Derivative financial instruments – Liabilities	**1.265**	428	-	-	-	-
Due to customers		-	**7.723**	10.528	**2.415**	1.959
Other liabilities	**291**	426	**15**	140	-	-
Transactions:						
Interest income	**9.861**	3.634	**19.300**	**22.851**	**30**	81
Interest expense	**8.143**	10.703	**56**	-	**27**	35
Banking fee and commission income	**323**	267	-	-	-	-
Banking fee and commission expense – fees on lien agreement	**2.037**	2.553	-	-	-	-
Banking fee and commission expense – other	**353**	875	**79**	-	-	-
Net trading income	**46**	-	-	-	-	-
Staff costs excluding retirement benefit costs	-	-	-	-	**884**	946
Defined contribution scheme	-	-	-	-	**125**	122
Directors' remuneration	-	-	-	-	**718**	730
Other operating expenses	**322**	253	**179**	177	-	-

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

(1) Loans and advances to banks include reverse repurchase agreements with Eurobank Ergasias S.A. of €1.928.817 thousand (2015: €1.237.351 thousand) fully secured by ECB Eligible bonds majority of those being EFSF bonds (Note 13).

30 Related party transactions and balances (continued)

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

(2) Total collaterals in relation to loans and advances to key management personnel amounted to €684 thousand (2015: €1.155 thousand).

(3) On 31 March 2010, Eurobank Ergasias S.A. advanced the sum of €40 million to the Bank. The interest rate of the loan was set at an annual rate equal to 3 month LIBOR plus 65 basis points and reprised to 3 month LIBOR plus 275 basis points on 18 December 2013. The loan shall be repaid on 31 March 2020. After 31 March 2015 the Bank has the option to call in any part of the loan subject to the prior consent of the Central Bank of Cyprus. The loan is not secured and the rights and claims of Eurobank Ergasias S.A. are subordinated to the claims of all other creditors of the Bank except the holders of other subordinated indebtedness of the same type (lower tier II) of the Bank.

(ii) Lien agreements

As of 31 December 2016 and 2015, the Bank has in place lien agreements from Eurobank Ergasias S.A., which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2016	2015
	€'000	€'000
Loans and advances to customers	**315.791**	359.878

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

On 28 September 2012 the Bank and Eurobank Ergasias S.A. signed a memorandum of understanding whereby the latter assumes the credit losses arising from the credit facility extended by the Bank to ERB New Europe Funding II B.V. for any amount exceeding the amount of €15 million on an annual basis, and establish a pledge, in favour of the Bank over a deposit held in its name with the Bank. The loans and advances to customers subject to these arrangements amounted to €40.261 thousand (2015: €42.531 thousand).

31 Post balance sheet events

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