RCB BANK LTD

Report & Financial Statements 2017

2017

RCB BANK LTD

Report & Financial Statements 2017

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Governance

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Board of Directors and other officers

Board of Directors

Panayiotis Loizides (Chairman, non-executive, independent)
Vadim Levin (non-executive)
Sotirios Zackheos (executive)
Kirill Zimarin (Chief Executive Officer)
Christophoros Pissarides (non-executive, independent)
Andreas Tryfonides (non-executive, independent)
Erato Kozakou Marcoullis (non-executive, independent)
Petros Clerides (non-executive, independent)
Sergey Kovtun (non-executive)
Martin Czurda (non-executive, independent)
Agni Jacovides (non-executive, independent, resigned on 19 April 2017)

Secretary

Petr Zaytsev
2 Amathuntos street
CY-3105 Limassol

Registered office

2 Amathuntos street
CY-3105 Limassol

Management Report

01. The Board of Directors presents its report together with the audited separate financial statements of RCB BANK LTD (the "Bank") for the year ended 31 December 2017.

Principal activity and nature of the operations of the Bank

02. The principal activity of the Bank, which is unchanged from last year, is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus.

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

03. The client loan portfolio of the Bank amounted to EUR6,9 billion as at 31 December 2017 and EUR7,1 billion as at 31 December 2016. Net profit after tax for the year was EUR97,2 million compared to EUR81,7 million in the year 2016. The average number of employees increased from 331 to 373 compared to the previous year. The return on assets (calculated as profit for the year divided by total assets at the end of the year) amounted to 1,0% for the year ended 31 December 2017 and 1,0% for the year ended 31 December 2016.

Changes in structure

04. In September 2017, the Bank incorporated three new subsidiaries, namely RCB CREDIT SYSTEM LTD (Cyprus), RCB FINANCE LTD (Cyprus), and LSA FINANCE DAC (Ireland). All of them are wholly owned by the Bank and remain dormant.

Principal risks and uncertainties

05. The principal risks assumed by the Bank are banking and reputational risk. Banking risk refers to credit, liquidity, market and operational risk. Credit risk is significant for the Bank and is adequately monitored by management. Market risk (including foreign exchange risk, price risk, and interest rate risk in the trading book) is also significant, due to the uncertainty concerning changes in foreign exchange rates and interest rates. The Bank also monitors liquidity risk, defined as the inability of the Bank to fulfil its obligations as they fall due and operational risk arising from failure of internal controls. Refer to Notes 2, 4 and 29 of the financial statements for further details.

Use of financial instruments by the Bank

06. The Bank's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Bank's financial performance. The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. Refer to Note 4 of the financial statements for further details.

Foreign exchange risk

07. The Credit, Assets and Liabilities Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Foreign currency positions are mostly short term and for operational purposes. The Bank uses currency derivative contracts as part of its management of currency risk. Refer to Note 4 of the financial statements for further details.

Price risk

08. The Bank is exposed to securities price risk because of investments (debt securities) held by the Bank and classified on the balance sheet as at fair value through profit or loss. The Bank is not exposed to commodity or equity price risk. To manage its price risk arising from investments in securities, the Bank diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Board of Directors. Refer to Note 4 of the financial statements for further details.

Interest rate risk

09. Interest rate risk in the Bank's trading book is the risk that changes in the market interest rates will adversely affect the value of the fixed income portfolio. Interest rate risk in the banking book is the risk that arises from timing differences in the maturity (for fixed-rate instruments) and repricing (for floating-rate instruments) of the Bank's assets, liabilities and off-balance sheet positions.

10. With regards to the interest rate risk as a result of its banking activities, the Bank seeks to avoid any material unexpected impact in its earnings and economic value caused by interest rate movements by mitigating this risk to the extent possible. The Credit, Assets and Liabilities Committee is authorized to decide on the hedging of interest rate risk in the Banking Book. Refer to Note 4 of the financial statements for further details.

Credit risk

11. The Bank's business model assumes credit risk-taking primarily in its core activity of lending. The Bank follows conservative approach in credit risk taking. The credit granting process of the Bank is based on sound criteria, comprehensive assessment and thoughtful discussion of risks to be undertaken. Careful balancing of strategic target achievement and keeping risks within risk appetite is a key consideration in the Bank's credit risk-taking. The Bank has a moderate appetite for credit risk and the amount of credit risk which might be undertaken by the Bank is restricted by the integrated risk appetite indicators. The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, industries and countries. The Board of Directors is responsible for setting of the risk appetite and risk appetite indicators and the Credit Framework limits which are used to describe the Bank's credit risk appetite and loss tolerance. These include limits on expected and unexpected losses, large exposures, borrower concentration as well as maturity and tenor restrictions. The limits are monitored on a regular basis and subject to an annual or more frequent review. All new exposures and limits are approved by the Credit, Assets and Liabilities Committee.

12. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is largely managed by detailed credit risk assessment performed by the lending business departments prior to the issue of loans and by ensuring that adequate collateral is obtained. The assessments are independently reviewed by the Risk Management Department. Refer to Note 4 of the financial statements for further details.

Human resources

13. The Bank considers its employees central to its success and strives to maintain exemplary working standards, ensure job satisfaction and create opportunities for professional growth.

14. As a matter of principle, the Bank supports levels of remuneration and compensation necessary to attract, retain and motivate high quality people required to lead, manage and serve the Bank in a competitive environment. The Bank considers that appropriate levels of remuneration and compensation are essential to enhance the long-term interests of the Bank's stakeholders, including its shareholders. The Bank therefore takes into account the competitiveness of the market in which it operates and the strategic targets of the business, but it also seeks to reward its employees who promote the Bank's corporate values, and who also support long-term generation of values.

15. The Bank strives to ensure that remuneration packages reflect the relevant duties and responsibilities, are fair and equitable, and incorporate rewards clearly and measurably linked to performance, both on an individual and on a corporate basis.

16. The Bank considers important such values as compliance, culture, ethics, conduct towards customers, measures to mitigate conflicts of interest, etc. The Bank does not reward individuals for taking risks in excess of the Bank's risk tolerance and at all times gives due consideration to the longer term.

Corporate Social Responsibility (CSR)

17. Sponsorship and charity initiatives reflect the Bank's commitment to a sustainable community development.

18. The support of charity organisations, arts and culture, health services, sports, environmental protection and public assistance is the back-bone of the Bank's CSR programme. The Bank shares a common vision for the future with the local community and strives to make it a better one.

19. Encouraging cross-cultural ties is another axis the Bank invests in through the support of events aiming to advance understanding and closer relations between countries. The Bank helps establish cooperation and cultural exchange between regional governments, business leaders and decision makers.

20. CSR initiatives also include an employee engagement agenda that encourages volunteering and serves the Bank's main goal to building a socially responsible business.

Future developments of the Bank

21. The Board of Directors will closely monitor the current political and economic environment in countries where the Bank has significant exposures and take measures accordingly.

Results

22. The Bank's results for the year are set out on page 18.

Dividends

23. In December 2017, the Shareholders approved a dividend payout out of reserves amounting to EUR74.092.999/US$87.000.000 (EUR6,85953/US$8,05446 per share). The dividend was paid in the same month.

24. As of the date of authorisation of these financial statements for issue, the Board of Directors recommends a dividend payout out of reserves amounting to US$20.000.000 (US$1,85160 per share).

Share capital

25. There were no changes to the share capital of the Bank during the year.

Board of Directors

26. The members of the Board of Directors at 31 December 2017 and at the date of this report are shown on page 4. All of them were members of the Board throughout the year 2017, except for Ms Jacovides who resigned on 19 April 2017.

27. There being no requirement in the Bank's Articles of Association for retirement of Directors by rotation, all Directors remain in office.

28. There were no significant changes in the assignment of responsibilities and remuneration of the Board of Directors.

Events after the balance sheet date

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

Branches

30. The Bank operates through branches in Cyprus and one branch in Luxembourg and has representative offices in the Russian Federation, the United Kingdom and the United Arab Emirates.

Independent auditors

31. The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

Panayiotis Loizides	Kirill Zimarin	Sotirios Zackheos	Petr Zaytsev
Chairman	Chief Executive Officer	Executive Director	Secretary
Non-Executive Independent			

Limassol, 26 April 2018

Corporate Governance Report

RCB BANK LTD (the “Bank”) considers that by following the principles of Corporate Governance - the system by which the Bank is directed and run - it assists in the achievement of an appropriate and effective governance which safeguards the interests of its shareholders.

The Board

The Board’s role is to provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls, which enables risk to be assessed and managed. It oversees and controls the Bank as well as formulates the Bank’s strategy and future development. In this context the Board monitors and examines the targets and strategic policy objectives, the annual budget, significant capital expenditure, unusual transactions, transactions with related parties, and the Bank’s financial performance.

As of 31 December 2017, the Board of Directors consists of ten directors (2016: eleven directors), of whom eight are non-executive (2016: nine non-executive). Six of the non-executive directors (2016: seven non-executive) are independent.

There is a clear division of responsibility between the positions of the Chairman of the Board of Directors who presides over the Board meetings, and the position of the Chief Executive Officer who is responsible for the implementation of the Board’s policy and financial strategy.

The Board of Directors ensures that the system of internal controls is satisfactory based on the report received by the Audit Committee.

The Board meets sufficiently regularly to discharge its duties effectively.

The Audit Committee

The main role and responsibilities of the Audit Committee are set out in its written terms of reference.

The Audit Committee ensures the implementation of the principles governing the preparation of the financial reports, the effectiveness of the internal control system and the independence of the external and internal auditors.

For and on behalf of the Board of Directors
Kirill Zimarin
Chief Executive Officer
Limassol, 26 April 2018

Financial Statements 31 December 2017

02

Independent Auditor's Report

To the Members of RCB BANK LTD

Report on the Audit of the Financial Statements

Our opinion

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

What we have audited

We have audited the parent company financial statements which are presented in pages 18 to 75 and comprise:

- the balance sheet as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities* for the *Audit of the Financial Statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Independence

We remained independent of the Bank throughout the period of our appointment in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Cyprus and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our audit approach

Overview

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Board of Directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality	- Overall materiality: \$6.417.000, which represents 5% of profit before tax
Key audit matters	We have identified the following key audit matters: - Impairment provision on loans and advances to customers including IFRS 9 transition - Recognition of interest income on loans and advances to customers

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the separate financial statements as a whole, taking into account the structure of the Bank, the accounting processes and controls, and the industry in which the Bank operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	\$6.417.000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark, because in our view, it is the benchmark against which the performance of the Bank is most commonly measured by the users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above \$641.000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

A separate de minimis SUM posting level for balance sheet misstatements was established by using a percentage of the amount that could be considered material to any key element of the balance sheet. We applied a multiple of 5 to establish materiality specifically for balance sheet reclassification journals, with no impact on covenants or liquidity measures (overall materiality of $32.085.000).

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment provision on loans and advances to customers including IFRS 9 transition	
We focused on this area because the management exercises significant judgement, using subjective assumptions, when determining both the timing and the amounts of the impairment provision for loans and advances. As loans and advances comprise a large portion of the Bank's assets, and due to the significance of judgement used in estimating both the individual and collective provisions, this is considered to be a key audit matter. In addition, the Bank is required under IAS 8 to disclose the impact of IFRS 9 adoption for accounting periods beginning on or after 1 January 2018. This is a new and complex accounting standard which has required considerable judgment and interpretation in its implementation. We consider this transition and the required disclosure to be a key audit matter because new models have been developed by the Bank to calculate IFRS 9 impairment losses and judgement is required in a number of significant areas, in particular around the calculation of Expected Credit Losses. Note 3 "Summary of Significant Accounting Policies", Note 5 "Critical Accounting Estimates and Judgments" and Note 17 "Loans and Advances to Customers" to the financial statements provide detailed information on the estimation of the individual and collective provision for impairment of loans and advances to customers as at 31 December 2017. Note 3 "Summary of Significant Accounting Policies" to the financial statements provides information on the adoption of IFRS 9 "Financial Instruments" ("IFRS 9") by the Bank from 1 January 2018, including the estimated impact of the adoption.	We have focused on the following judgements and estimates which could give rise to material misstatement or are potentially subject to management bias: - The completeness and timing of recognition of loss events; - The measurement of individually assessed provisions, which is dependent on the valuation of collateral, the timing of cash flows and realisations; - The measurement of modelled provisions, which is dependent upon key assumptions relating to probability of default, loss given default and expected future recoveries discounted to present value. In obtaining sufficient audit evidence we: - Reviewed design and operating effectiveness of key controls around the process of loan performance monitoring; - Reviewed impairment methodology to establish key inputs used in the calculation of collective provisions and on sample basis tested the key inputs used; - Evaluated and tested the key assumptions and judgements adopted by management; - Performed procedures to obtain comfort on the accuracy of the collective impairment calculation process through recalculation of the provision charge based on audited inputs; - For material non-performing loans, we performed loan file reviews to inspect financial particulars and assessed the adequacy of the recognised individual provision losses; - Assessed the disclosures made against the relevant accounting standards. We determined that the methodologies and models used are appropriate and the outputs are reasonable.

Key Audit Matter	How our audit addressed the Key Audit Matter
	In respect of the disclosure of the impact of IFRS 9, we obtained an understanding of the external expert's models ("models") acquired by the Bank and further evaluated management's implementation process of these models for the calculation of Expected Credit losses including governance over the determination of key judgements. These included probability-weighted macroeconomic scenarios, staging criteria and loss given default estimates. We also performed the following procedures: - Assessed the Bank's methodology for Expected Credit loss provisioning and Classification & Measurement with the assistance of our internal experts; - Reviewed key technical papers prepared by the external experts on their models; - Reviewed the Bank's business model assessment for each category of debt financial assets; - Reviewed on a sample basis the SPPI tests performed by the Bank for loans and advances to customers and debt securities against the underlying terms of the loan agreements and securities prospectuses; - Obtained an understanding and assessed the reasonableness the key outputs calculated by the models, as well as key judgements and assumptions used by the Management for the implementation of the models; - Assessed the disclosures made against the relevant accounting standards. We determined that the methodologies and models used give a basis for a reasonable quantitative estimate of the impact of the adoption of IFRS 9 as at 1 January 2018.
Recognition of interest income on loans and advances to customers	
We focused on this area mainly because of the magnitude of this particular financial statement line item. Furthermore, in certain cases, the IAS 39-mandated effective interest rate might not correspond to the contractual interest rate of the loan, which might introduce some additional complexity in the calculation. Such circumstances arise when contractual terms incorporate prepayment options and other transaction costs, such as commissions, discounts or premiums, which the Bank takes into consideration when calculating the effective interest rate.	Our audit procedures included the recalculation of interest income on a monthly basis. The input data, such as principal amounts, contractual interest rates, currencies and maturity dates were tested through substantive testing and tracing to source documents. With respect to effective interest rate determination, where applicable, we assessed the appropriateness, and reasonableness of the methodology, assumptions and inputs applied.

Key Audit Matter	How our audit addressed the Key Audit Matter
Note 3 “Summary of significant accounting policies”, Note 4 “Financial risk management” included in the financial statements provide detailed information on the interest income and effective interest rates of loans and advances to customers.	Our audit procedures also included testing of controls over the approval process for changes to credit terms. We determined that we could place reliance upon these controls for the purposes of our audit. We determined that the methodologies and models used are appropriate and the outputs are reasonable.

Reporting on other information

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

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

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

Responsibilities of the Board of Directors and those charged with governance for the Financial Statements

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

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

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

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of Article 10(2) of the EU Regulation 537/2014 we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the Auditor and Period of Engagement

We were first appointed as auditors of the Bank in 1996 by the Board of Directors of the Bank for the audit of the financial statements for the year ended 31 December 1996. Our appointment has been renewed annually by shareholder resolution representing a total period of uninterrupted engagement appointment of 22 years.

Consistency of the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed in this report is consistent with the additional report to the Audit Committee of the Bank, which we issued on 25 April 2018 in accordance with Article 11 of the EU Regulation 537/2014.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of the EU Regulation 537/2014 and Section 72 of the Auditors Law of 2017 were provided. In addition, there are no non-audit services which were provided by us to the Bank and which have not been disclosed in the financial statements or the management report.

Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, based on the work undertaken in the course of our audit, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the financial statements.
- In light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the management report. We have nothing to report in this respect.

Other Matters

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

We have reported separately on the consolidated financial statements of the Bank and its subsidiaries for the year ended 31 December 2017.

The engagement partner on the audit resulting in this independent auditor's report is Anna Loizou.

Anna Loizou
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

City House, 6 Karaiskakis Street,
CY-3032 Limassol, Cyprus

26 April 2018

Statement of comprehensive income

for the year ended 31 December 2017

	Note	2017 EUR000	2016 EUR000
Interest income	6	489.755	404.716
Interest expense	6	(271.352)	(176.628)
Net interest income		**218.403**	**228.088**
Loan impairment charges	7	(39.302)	(11.591)
Net interest income after loan impairment charges		**179.101**	**216.497**
Fee and commission income	8	11.538	7.875
Fee and commission expense	8	(1.762)	(1.482)
Net fee and commission income		**9.776**	**6.393**
Other gains - net	9	25.780	16.968
Administration and operating expenses	10	(101.042)	(142.827)
Profit before tax		**113.615**	**97.031**
Tax	12	(16.432)	(15.365)
Profit for the year		**97.183**	**81.666**
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Currency translation difference		(65.233)	20.934
Other comprehensive income		**(65.233)**	**20.934**
Total comprehensive income for the year		**31.950**	**102.600**

The notes on pages 22 to 75 are an integral part of these financial statements.

Balance sheet

at 31 December 2017

	Note	2017 EUR000	2016 EUR000
Assets			
Cash and balances with central banks	13	2.006.755	1.041.617
Loans and advances to banks	14	69.978	144.740
Financial assets at fair value through profit or loss	15	159.310	289.676
Derivative financial instruments	16	13.332	14.613
Loans and advances to customers	17	6.860.490	7.140.706
Other assets	21	19.643	17.891
Property, plant and equipment	18	22.760	23.560
Intangible assets	19	1.307	1.620
Deferred income tax assets	20	327	397
Total assets		**9.153.902**	**8.674.820**
Liabilities			
Deposits from banks	22	5.336.281	5.172.917
Due to customers	23	3.009.519	2.734.784
Financial liabilities at fair value through profit or loss	24	1.865	5.492
Derivative financial instruments	16	22.827	4.552
Debt securities in issue	25	152.694	49.906
Other liabilities	26	83.515	102.406
Current income tax liabilities		515	4.390
Subordinated debt	27	83.808	95.352
Total liabilities		**8.691.024**	**8.169.799**
Equity			
Capital and reserves attributable to the equity holders			
Share capital	28	18.471	18.471
Share premium	28	120.600	120.600
Retained earnings		283.290	260.200
Translation reserve		40.517	105.750
Total equity		**462.878**	**505.021**
Total equity and liabilities		**9.153.902**	**8.674.820**

On 26 April 2018 the Board of Directors of RCB BANK LTD authorised these financial statements for issue.

Panayiotis Loizides
Chairman
Non-Executive Independent

Kirill Zimarin
Chief Executive Officer

Sotirios Zackheos
Executive Director

Petr Zaytsev
Secretary

The notes on pages 22 to 75 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2017

	Note	Share capital EUR000	Share premium EUR000	Retained earnings EUR000	Translation reserve EUR000	Total EUR000
Balance at 1 January 2016		**18.471**	**120.600**	**388.721**	**84.816**	**612.608**
Comprehensive income						
Profit for the year		-	-	81.666	-	81.666
Currency translation difference		-	-	-	20.934	20.934
Total comprehensive income for the year		-	-	81.666	20.934	102.600
Transactions with owners						
Dividends out of reserves	32	-	-	(210.187)	-	(210.187)
Total transactions with owners		-	-	(210.187)	-	(210.187)
Balance at 31 December 2016		**18.471**	**120.600**	**260.200**	**105.750**	**505.021**
Comprehensive income						
Profit for the year		-	-	97.183	-	97.183
Currency translation difference		-	-	-	(65.233)	(65.233)
Total comprehensive income for the year		-	-	97.183	(65.233)	31.950
Transactions with owners						
Dividends out of reserves	32	-	-	(74.093)	-	(74.093)
Total transactions with owners		-	-	(74.093)	-	(74.093)
Balance at 31 December 2017		**18.471**	**120.600**	**283.290**	**40.517**	**462.878**

The notes on pages 22 to 75 are an integral part of these financial statements.

Statement of cash flows

for the year ended 31 December 2017

	Note	2017 EUR000	2016 EUR000
Cash flows from operating activities			
Interest received		382.766	483.675
Interest paid		(216.375)	(199.568)
Income received from trading of financial instruments at fair value through profit or loss		8.744	6.595
Foreign exchange income received	9	18.557	10.752
Fees and commissions received		11.144	6.462
Fees and commissions paid	8	(1.762)	(1.482)
Other net operating income received		114	1.735
Administration and operating expenses paid		(97.683)	(138.135)
Income tax paid		(19.864)	(14.677)
Cash flows generated from operating activities before changes in operating assets and liabilities		**85.641**	**155.357**
Net (increase)/decrease in mandatory reserve deposits with central banks		(21.382)	35.833
Net (increase)/decrease in financial assets at fair value through profit or loss		(133.155)	224.727
Net (increase)/decrease in amounts due from banks		(21.030)	755.675
Net (increase)/decrease in loans and advances to customers		(1.363.770)	4.337.823
Net (increase)/decrease in other assets		(1.895)	3.208
Net increase/(decrease) in amounts due to banks		1.489.699	(4.404.802)
Net increase/(decrease) in customer accounts		822.723	(115.573)
Net increase/(decrease) in promissory notes issued		119.357	(411.838)
Net increase/(decrease) in financial liabilities at fair value through profit or loss		17.921	(720)
Net (decrease)/increase in other liabilities		(5.109)	34.348
Net cash from operating activities		**989.000**	**614.038**
Cash flows from investing activities			
Purchases of property, plant and equipment	18	(5.026)	(2.670)
Proceeds from disposal of property, plant and equipment	18	72	3.643
Purchases of intangible assets	19	(465)	(260)
Net cash (used in)/ from investing activities		**(5.419)**	**713**
Cash flows from financing activities			
Dividends paid	32	(74.093)	(210.187)
Interest paid on subordinated debt	27	(6.345)	(6.476)
Net cash used in financing activities		**(80.438)**	**(216.663)**
Net increase in cash and cash equivalents		**903.143**	**398.088**
Effect of exchange rate changes on cash and cash equivalents		(24.536)	5.257
Cash and cash equivalents at beginning of year		1.113.470	710.125
Cash and cash equivalents at end of year	**30**	**1.992.077**	**1.113.470**

The notes on pages 22 to 75 are an integral part of these financial statements.

Notes to the financial statements

1. General information

Country of incorporation

RCB BANK LTD (the "Bank") is involved in the provision of banking services. The Bank is incorporated and domiciled in Cyprus and operates as a bank under licence from the Central Bank of Cyprus dated 1 August 1995. As at 31 December 2017, its registered office and its principal place of business are at 2 Amathuntos Street, CY-3105 Limassol, Cyprus.

The wholly owned subsidiary, RCB TRUSTEES (CYPRUS) LIMITED, is incorporated and domiciled in Cyprus and it is the only active subsidiary of the Bank. Its operations did not have material impact on these financial statements.

The wholly owned subsidiary, RCB CREDIT SYSTEM LTD, is incorporated and domiciled in Cyprus since September 2017. Its operations did not have any material impact on these financial statements as the company remained dormant.

The wholly owned subsidiary, RCB FINANCE LTD, is incorporated and domiciled in Cyprus since September 2017. Its operations did not have any material impact on these financial statements as the company remained dormant.

The indirect wholly owned subsidiary, LSA FINANCE DAC, is incorporated and domiciled in Ireland since September 2017. Its operations did not have any material impact on these financial statements as the company remained dormant.

The Bank has branches in Cyprus and one branch in Luxembourg. Additionally, the Bank has representative offices in Russia, the United Kingdom and the United Arab Emirates.

Principal activity

The principal activity of the Bank is the provision of banking services on the basis of the licence granted by the Central Bank of Cyprus. The Bank's active subsidiary is involved in the provision of trust company services.

2. Operating environment of the Bank

The Bank is regulated by the Central Bank of Cyprus and is required to comply with the Cyprus Banking Law, the Directives issued from time to time by the Central Bank of Cyprus and the EU Directives implemented by the Republic of Cyprus. Since 1 November 2014, the Bank is supervised by the European Central Bank under the Single Supervisory Mechanism since it was identified as a significant financial institution within the Eurozone.

Cyprus operating environment

The Cypriot economy has recorded positive growth in 2016 and 2017 after overcoming the economic recession of recent years. The overall economic outlook of the economy remains favorable, however there are still downside risks emanating from the still high levels of non-performing loans, the public debt ratio, as well as possible deterioration of the external environment for Cyprus.

The Cyprus operating environment did not have a material negative impact on the Bank's operations and financial performance. The overall share of the Bank's gross non-performing loans in gross loans and advances to customers is 0,2% as at 31 December 2017 (2016: 0,8%).

Russian operating environment

The Bank is also impacted by the Russian operating environment as its lending activities are also to clients with operations in the Russian Federation. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. The Russian economy was growing in 2017 after overcoming the economic recession of 2015 and 2016. The economy is negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals. The financial markets continue to be volatile. The future effects of the current economic situation are difficult to predict and management is making its estimations on the basis of all available information and is taking necessary measures to ensure sustainability of the Bank's operations. The tax liabilities of the Bank are determined on the basis that the Bank is not subject to Russian profits tax, because it does not have a permanent establishment in Russia for tax purposes.

Management determined loan impairment provisions using the "incurred loss" model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, including future changes in the economic environment, no matter how likely those future events are. Thus the actual financial results in the future could differ from the estimated results under these applicable standards.

3. 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.

Basis of preparation

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

The Bank has prepared these separate financial statements for compliance with the requirements of the Cyprus Income Tax Law and the Central Bank of Cyprus. The Bank has also prepared consolidated financial statements presented in US$ in accordance with IFRS as adopted by the EU for the Bank and its subsidiaries. Users of these separate financial statements should read them together with the consolidated financial statements to obtain a proper understanding of the financial position, the financial performance and cash flows of the Bank and its subsidiaries. The consolidated financial statements can be obtained from the Bank's registered office.

The financial statements comprise the statement of comprehensive income, balance sheet, the statement of changes in equity, the statement of cash flows and the notes.

As of the date of the authorisation of the financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2017 have been adopted by the EU through the endorsement procedure established by the European Commission, with the exception of certain provisions of IAS 39 "Financial Instruments: Recognition and Measurement" relating to portfolio hedge accounting and IFRS14 "Regulatory Deferral Accounts".

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial instruments at fair value through profit or loss, derivatives, and land and buildings.

The Bank classifies its expenses by the function of expense method.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

Adoption of new and revised IFRSs

During the current year the Bank adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2017. These are listed below. The adoption of these did not have a material effect on the accounting policies of the Bank.

- Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 (issued on 19 January 2016 and effective for annual periods beginning on or after 1 January 2017). The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments.
- Disclosure Initiative - Amendments to IAS 7 (issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017). The disclosure is made in Note 27.
- Annual Improvements to IFRSs 2014-2016 cycle - amendments to IFRS 12 (issued on 8 December 2016 and effective for annual periods beginning on or after 1 January 2017). The amendments clarify the scope of the disclosure requirements in IFRS 12 by specifying that the disclosure requirements in IFRS 12, other than those relating to summarised financial information for subsidiaries, joint ventures and associates, apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with IFRS 5.

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below:

- IFRS 9 "Financial Instruments: Classification and Measurement" (issued in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:
  - I. Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
  - II. Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
  - III. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.
  - IV. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
  - V. IFRS 9 introduces a new model for the recognition of impairment losses - the expected credit losses (ECL) model. There is a "three stage" approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired. Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL.
  - VI. Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

Based on the available information and current implementation status the Management currently estimates that the impact on 1 January 2018 of adopting IFRS 9 will result in a decrease in equity attributable to shareholders' of the Bank by approximately EUR10,3 million. This impact primarily arises from an increase in provision for loan impairment on adoption of IFRS 9 less the related deferred tax credit. The Bank continues to refine and re-calibrate its models for the latest data as well as review the implementation process.

As a result of the adoption of IFRS 9, there are a number of reclassifications to the new IFRS 9 measurement categories. The following table reconciles the carrying amounts of financial assets, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018:

			IAS39 Carrying value				Effect	IFRS9 Carrying value
	Measurement category		31.12.2017	Remeasurement		Reclassification		01.01.2018
				ECL	Other	Mandatory	Voluntary	
	IAS39	IFRS9	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000
Balances with central banks	L&R	AC	2.002.505	-	-	-	-	2.002.505
Loans and advances to banks	L&R	AC	69.978	(9)	-	-	-	69.969
Financial assets at FVTPL:								
- Debt instruments	FVTPL	FVTPL	159.310	-	-	(87.521)	-	71.789
- Debt instruments	FVTPL	FVOCI	-	(180)	180	87.521	-	87.521
Derivative financial instruments	FVTPL	FVTPL	13.332	-	-	-	-	13.332
Loans and advances to customers	L&R	AC	6.860.490	(10.914)	-	(1.093.834)	-	5.755.742
Loans and advances to customers	L&R	FVTPL	-	-	-	1.093.834	-	1.093.834
Other financial assets	L&R	AC	14.563	(501)	-	-	-	14.062
At 31 December			**9.120.178**	**(11.604)**	**180**	**-**	**-**	**9.108.754**

*L&R - loans and receivables; AC - amortised cost; FVTPL - fair value through profit or loss; FVOCI - fair value though other comprehensive income

No significant changes are expected for financial liabilities. Provisions relating to guarantees and other credit commitments are estimated at EUR359 thousand.

In addition, a deferred tax credit of approximately EUR1.526 thousand is expected to arise in opening retained earnings due to the recognition of a deferred tax asset. This is due to additional temporary differences generated upon the application of the expected loss model.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Bank's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- IFRS 16 Leases (issued in January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Bank is currently assessing the new standard to reliably estimate the impact on the financial statements.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019, not yet endorsed by the European Union). The Bank is currently assessing the amendments to reliably estimate the impact on the financial statements.

There are no other new pronouncements that are expected to have any material impact on the Bank when adopted.

Comparatives

The 31 December 2016 balance sheet lines “Loans and advances to customers” and “Due to customers” were adjusted by EUR24.201 thousand (1 January 2016: EUR23.438 thousand) to exclude an off-balance sheet operation. There was no impact on any other opening balance sheet line item or net asset position of the Bank and thus no further disclosure is considered necessary since the impact is considered to be insignificant in the context of the balance sheet of the Bank.

Interest income and expense

Interest income and expense for all interest bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within “interest income” and “interest expense” in the statement of comprehensive income using the effective interest method.

Income on financial assets at fair value through profit or loss is included in the statement of comprehensive income within “other gains - net” in the period in which it arises.

The effective interest 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 relevant period. 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 (for example prepayment options) 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 commissions, premiums or discounts.

When a financial asset or a group of similar financial assets is impaired, the Bank reduces the carrying amount to its recoverable amount, being the estimated future cash flows discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired financial asset is recognised using the original effective interest rate.

Fee and commission income

Fees and commissions are generally recognised on an accruals basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiations of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities are recognised on the completion of the underlying transactions.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised reliably over the period in which the service is provided. The same principle is applied for custody services that are continuously provided over an extended period of time. Performance linked fees or fee components are recognised when the performance criteria are fulfilled. Agency fee income whereby the Bank acts as an agent of a third party in entering and completing a transaction on pre-determined terms and conditions are recognised over the term of the arrangement based on the services performed to date as a percentage of the total services to be performed.

Employee benefits

The Bank and the employees contribute to the Government Social Insurance Fund based on employees' salaries. In addition, the Bank operates provident fund schemes that are funded by payments from the Bank and the employees. The Bank's contributions are expensed when due and are included in staff costs. The Bank has no further payment obligations once the contributions have been paid.

The Bank also grants a restricted stock unit (RSU) award as a variable remuneration to material risk takers (employees whose professional activities have a material impact on the Bank's risk profile). Each RSU represents an obligation of the Bank to pay to the material risk taker in cash value of RSU in the date of settlement. The value of the RSU is equal to zero if the Bank's CET1 ratio as calculated per regulatory requirements applicable to the Bank on the 31st of December of the last complete year is equal or below a specified percentage. Otherwise, it is calculated as CET1 as of 31st of December of last year divided over the total number of issued shares as of 31st of December of last year. The deferral period, which is the period of time between the date of grant of a deferred award and vesting during which the material risk taker is not the legal owner of the deferred award, is a period of 3 to 5 years. The Bank recognises the full amount of the variable remuneration granted in the form of RSU in the year it is granted within employee benefits expense with a corresponding liability on the balance sheet.

Foreign currency translation

A. Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates, United States Dollar (US$) ("the functional currency"). These financial statements are presented in Euro (EUR) for compliance with the Central Bank of Cyprus requirements.

B. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Translation differences on non-monetary items measured at fair value in a foreign currency, including equity investments carried at fair value through profit or loss, are translated using the exchange rates at the date when the fair value was determined and are recognised in profit or loss, as part of the fair value gain or loss.

The results and financial position of the Bank are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- Components of equity are translated at the historical rate; and
- All resulting exchange differences are recognised in other comprehensive income.

Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date where the Bank operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

The Bank's uncertain tax positions are reassessed by management at every balance sheet date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretations of tax laws that have been enacted or substantively enacted by the balance sheet date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

Financial assets

I. Classification

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

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

  This category has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term or 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-making. Derivatives are also categorised as held for trading.

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

  Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the balance sheet date.

- **Loans and receivables**

  Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable, other than:

  - those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
  - those that the Bank upon initial recognition designates as available for sale;
  - those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

The Bank's loans and receivable comprise "cash and balances with central banks", "loans and advances to banks" and "loans and advances to customers".

II. Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the settlement date which is the date on which the asset is delivered to the Bank. Loans and receivables are recognised when cash is advanced to the borrowers. Any change in fair value of the assets classified as financial assets at fair value through profit or loss to be received during the period between the trade date and the settlement date is recognised in profit or loss. Whereas changes in the fair value of assets carried at amortized cost between trade date and settlement date are not recognized.

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit or loss. All other financial instruments are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

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

Upon disposal of financial assets, the difference between the carrying amount of an asset disposed to another party and the sum of the proceeds received or receivable is recognized in profit or loss within "other gains - net".

If the terms of a financial asset held at amortised cost are renegotiated or otherwise modified, the renegotiated asset is then derecognized and a new asset is recognized at its fair value only if the risks and rewards of the asset are substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows. Qualitative factors are also taken into consideration in deciding when there is a substantial change in the terms of the financial asset. These include changes in the currency denomination, changes in collateral of the loan and substantial changes in the maturity profile of the financial asset. In such cases, the Bank treats the modification as derecognition of existing financial asset and recognition of new financial asset. The difference between the carrying amount of original financial asset and fair value of renegotiated asset recognized is recorded through "interest income" in the statement of comprehensive income.

In situations where the modification is not treated as derecognition of existing financial asset and recognition of new financial asset, the Bank recalculates the carrying amount of the renegotiated loan by computing the present value of new expected future cash flows at the financial asset's original effective interest rate and any adjustment is recognised as interest income in the statement of comprehensive income.

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the statement of comprehensive income within "other gains - net" in the period in which they arise. Coupon income on debt instruments classified as financial assets held for trading is also included in the statement of comprehensive income within "other gains - net" in the period in which it arises.

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. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial assets traded in an active market is measured as the product of the quoted price for the individual asset and the quantity held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price. The quoted market price used to value financial assets is the current bid price.

A portfolio of financial assets that are not traded in an active market is measured on the basis of the price that would be received to sell a net long position for a particular risk exposure in an orderly transaction between market participants at the measurement date. Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees, are used to measure fair value of certain financial assets for which external market pricing information is not available.

Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading category if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before the reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the "at fair value through profit or loss" category all embedded derivatives are re-assessed and, if necessary, separately accounted for.

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.

Derivative financial instruments

Derivative financial instruments, which comprise mainly currency derivative contracts, are initially recognised in the balance sheet at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained using valuation techniques, including discounted cash flow models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Gains or losses arising from currency derivative contracts are shown in the statement of comprehensive income within "other gains - net". Certain derivatives embedded in other financial instruments such as prepayment options in loan contracts, 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 separately accounted for at fair value, with changes in fair value recognised in the profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss. The Bank does not apply hedge accounting.

Sale and repurchase agreements and securities lending

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks or deposits 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 life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Impairment of financial assets

Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets are impaired.

A financial asset or a group of financial assets are impaired and impairment losses are incurred only 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 are impaired includes observable data that come to the attention of the Bank about the following loss events:

I. significant financial difficulty of the issuer or obligor;
II. a breach of contract, such as a default or delinquency in interest or principal payments;
III. the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Bank would not otherwise consider;
IV. it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
V. the disappearance of an active market for that financial asset because of financial difficulties;
VI. deterioration of the borrower's competitive position;
VII. deterioration in the value of collateral;
VIII. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

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.

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 profit or loss. If a loan 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.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., 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) to the extent applicable to the Bank given the nature of its operations, the small number of loans and history of loan losses.

When a loan is uncollectible, it is written off against the related provision 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.

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 statement of comprehensive income, in "loan impairment charges".

Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition. A financial liability 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 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. Financial liabilities designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Bank's documented strategy. Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded as financial liabilities at fair value through profit or loss.

The quoted market price for financial liabilities is the current asking price.

Gains and losses arising from changes in fair value of financial liabilities at fair value through profit or loss are presented in the statement of comprehensive income within "other gains-net" in the period in which they arise.

Borrowings, debt securities in issue and subordinated debt

Borrowings and debt securities in issue including subordinated debt are recognised initially at fair value, net of transaction costs incurred. Borrowings and debt securities in issue are subsequently stated at amortised cost. Any difference between proceeds (net of transaction costs) and the redemption value is recognised in interest expense in the statement of comprehensive income over the period of the borrowings and debt securities in issue using the effective interest method.

Borrowings and debt securities in issue are derecognised when they are extinguished that is, when the obligation is discharged, cancelled or expires.

When there are changes in terms of the financial liability, the Bank considers whether the new terms are substantially different. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent different from the discounted present value of the remaining cash flows of the original financial liability. Qualitative factors are also taken into consideration in deciding when there is a substantial change in the terms of the financial liabilities. These include changes in the currency denomination and substantial changes in the maturity profile of the financial liability. In such cases, the Bank treats the modification as an extinguishment.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment, which is reported in the statement of comprehensive income within interest expense. If the exchange or modification is not accounted for as an extinguishment, the Bank recalculates the carrying amount of the modified liability by computing the present value of the new expected cash flows at the financial liability's original effective interest rate and recognises any gain or loss as an adjustment to the carrying amount of the liability and with a related charge or credit in the profit or loss within interest expense. Related costs or fees incurred are amortised over the remaining term of the modified liability using the original effective interest rate.

When the estimates of payments to settle the financial liability are amended to reflect actual and estimated cash flows, the Bank recalculates the carrying amount of the liability by computing the present value of estimated future cash flows at the financial liability's effective interest rate and any adjustment is recognised as income or expense in the statement of comprehensive income within interest expense.

The rights of the lender under the subordinated debt are at all times subordinated to the rights of all other creditors of the Bank.

Due to customers
Due to customers are non-derivative liabilities to individuals, state or corporate customers which are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost.

Deposits from banks
Deposits from banks are recorded when money or other assets are advanced to the Bank by counterparty banks. These balances constitute non-derivative liabilities which are initially recognised at fair value plus transaction costs and are subsequently carried at amortised cost.

Property, plant and equipment
Land and buildings comprise the Bank's premises. The premises of the Bank are stated at revalued amount, as described below, less subsequent depreciation of buildings.

Premises are subject to revaluation with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Increases in the carrying amount arising on revaluation are credited to other comprehensive income and increase other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and decrease the previously recognised other reserves in equity; all other decreases are charged to profit or loss for the year. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from “other reserves” to “retained earnings”.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

The depreciation after the date of the revaluation is calculated on the basis of the revalued carrying value of this asset. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

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

Land is not depreciated. Depreciation on other assets is calculated on the straight line method to allocate the cost or revalued amount to their residual values over their estimated useful lives. The annual depreciation rates are as follows:

	%
Buildings	4
Furniture and equipment	10 - 33
Motor vehicles	20
Other transportation	4

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, plant and equipment were impaired as at 31 December 2017 and 31 December 2016.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the profit or loss of the year in which it was incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the items can be measured reliably.

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

Computer software

Costs that are directly associated with identifiable and unique computer software products controlled by the Bank and that will probably generate economic benefits exceeding costs beyond one year are recognised as intangible assets. Subsequently computer software is carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure, which enhances or extends the performance of computer software programmes beyond their original specifications is recognised as a capital improvement and added to the original cost of the computer software. Costs associated with maintenance of computer software programmes are charged to the profit or loss of the year in which they were incurred. Computer software costs are amortised using the straight line method over their estimated useful lives, not exceeding a period of three years. Amortisation commences when the computer software is available for use and is included within administration and operating expenses.

Leases

The leases entered into by the Bank are exclusively operating leases, in which a significant portion of the risks and rewards of ownership are retained by the lessor. Payments (net of any incentives received from the lessor), including prepayments, made under operating leases are charged to administration and operating expenses in the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Impairment of non-financial assets

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

No non-financial assets were impaired in 2017 and 2016.

Other receivables and payables

Other financial receivables and payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Other non-financial receivables and payables are measured at cost less impairment.

Share capital and share premium

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 subject to the provisions of the Cyprus Companies Law on reduction of share capital.

Investments in subsidiaries

Subsidiaries are those investees, including structured entities, that the Bank controls because the Bank (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor's returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Bank has power over another 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 recognized 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 recognized in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise amounts due from banks in course of collection, including cash and non-restricted balances with central banks in course of collection. Cash and cash equivalents are carried at amortised cost.

Repossessed properties

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and are reported within "other assets". As of 31 December 2017 and 31 December 2016 no significant repossessed properties were held by the Bank.

Fiduciary activities

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of corporate entities, trusts, individuals and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank. Commissions received from fiduciary activities are presented in the statement of comprehensive income within "fee and commission income" in the period in which they arise.

Credit related commitments

The Bank issues financial guarantees and commitments to provide loans. Financial guarantees represent irrevocable assurances to make payments in the event that a customer cannot meet its obligations to third parties, and carry the same credit risk as loans. Financial guarantees and commitments to provide a loan are initially recognised at their fair value, which is normally evidenced by the amount of fees received without the recognition of a separate receivable for future premiums not yet due. This amount is amortised on a straight line basis over the life of the commitment, except for commitments to originate loans if it is probable that the Bank will enter into a specific lending arrangement and does not expect to sell the resulting loan shortly after origination; such loan commitment fees are deferred and included in the carrying value of the loan on initial recognition. At the end of each reporting period, the commitments are measured at the higher of (i) the remaining unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the commitment at the end of each reporting period.

Dividend distribution

Dividend distribution to the Bank's shareholders is recognised as a liability in the Bank's financial statements in the year in which the dividends are appropriately authorised and are no longer at the discretion of the Bank. More specifically, interim dividends are recognised as a liability in the period in which these are authorised by the Board of Directors and in the case of final dividends, these are recognised in the period in which these are approved by the Bank's shareholders.

4. Financial risk management

4.1. General

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Chief Risk Officer is responsible for overseeing the development and monitoring the Bank's risk management policies. He provides comprehensive and understandable information on risks, enabling the Board of Directors to understand the Bank's overall risk profile. The Risk Management Department reports quarterly to the Board of Directors on its activities through the Risk Committee.

The Bank's risk management policies are designed to identify and analyse the risks faced by the Bank, to set the appropriate risk limits and controls and to monitor the risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and responsibilities.

Risk management processes throughout the Bank are audited by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures. The Internal Audit Department reports its findings and recommendations to the Audit Committee. In addition, the Bank's most recent Pillar III disclosure document is published on the Bank's website.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk and interest rate risk and operational risk (which are discussed below).

4.2. Credit risk

4.2.1. Credit risk

Credit risk is the risk of financial loss being incurred by the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations to the Bank. Credit risk arises mainly from loans and advances to banks, customers, and loan commitments, arising from such lending activities, but can also arise from financial guarantees, investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including derivatives and reverse repurchase loans.

The Bank distinguishes the following sub-categories of credit risk:

- Credit concentration risk;
- Counterparty and settlement risk;
- Country risk;
- FX lending risk; and
- Specialized lending.

Credit Concentration risk

Concentration risk arises from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer.

The following categories of credit concentration risk are recognized by the Bank:

- Single-name concentrations (including group of connected clients);
- Industry concentrations;
- Geographical concentrations;
- Product concentration; and
- Collateral and guarantees concentration.

For the purposes of managing and monitoring concentration risks the Bank has established appropriate limits, a thorough monitoring and reporting framework as well as appropriate measures and methodologies for the allocation of capital as mitigant.

Counterparty and settlement risk

The counterparty credit and settlement risks faced by the Bank arise from exposures to derivatives and transactions in financial instruments.

With regards to counterparty risk, this is controlled by careful selection of counterparties following a thorough credit quality assessment, the low complexity of the financial instruments in which the Bank transacts as well as careful consideration of the potential future exposure given the underlying financial instrument and the relevant market factors and characteristics. Additionally, the Bank mitigates this risk by estimating and allocating capital to take into account counterparty risk, the Credit Valuation Adjustment ("CVA"), in accordance with the provisions of the CRR.

With regards to settlement risk, the Bank manages this risk by making a wide use of delivery versus payment settlement arrangements as well as netting agreements.

Country risk

In order to correctly capture country risk for its exposures, the Bank considers both "country of incorporation" and "country of risk" of its borrowers, given that ultimate risk may sometimes lie in a country which is different to the borrower's country of residence.

For the purposes of comprehensively assessing country risk, the Bank carefully considers important factors such as the economic climate, political situation, regulatory framework and institutional framework of the underlying country to which the risk of the exposure lies.

Foreign exchange lending risk

Foreign exchange lending risk relates to the current or prospective risk to the Bank's earnings and own funds arising from FX lending to unhedged borrowers. The additional risk arises when a credit facility is granted to a borrower in a currency different from the borrower's currency of income/inflows and is considered in the case of unhedged borrowers i.e. retail and SME borrowers without a natural or financial hedge.

For the purposes of monitoring this risk the Bank assesses the materiality of debt denominated in a currency different to the currency of collateral or payment flows.

Specialized lending

Specialized lending is treated separately from other lending activities since the risk of such exposures lies in the profitability of the asset or project financed (e.g. commercial real estate, energy plant, shipping, commodities, etc.) rather than the borrower (which is generally a special purpose vehicle) and the financing is usually more significant in monetary terms and longer term.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. All new exposures and limits are approved by the Credit, Assets and Liabilities Committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is largely managed by detailed credit risk assessment performed by the lending business departments prior to the issue of loans and by ensuring that adequate collateral is obtained. The assessments are independently reviewed by the Risk Management Department.

Exposure to credit risk is moderate, as most of the loans and advances to customers are either secured by guarantees from shareholders or collateralised by cash deposits. The majority of the loans covered by guarantees from shareholders are also secured by obtaining third-party collateral, including securities, personal guarantees, and mortgages on property. The Bank uses independent appraisers to estimate the market values of collateralised properties.

The main considerations for the impairment assessment for loans and advances to customers and banks include whether any payments of principal or interest are overdue by more than 90 days or there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract.

All loans which are not specifically assessed and all loans which are specifically assessed but for which no impairment is identified are collectively assessed for impairment. A significant proportion of the loans of the Bank is covered by deposits or bank guarantees. The bank guarantees are exercisable upon presentation, hence the Bank does not expect to incur any credit losses on these loans.

For debt securities, external ratings such as Standard & Poor's, Fitch and Moody's ratings and assessments performed by the Risk Management Department are used for managing the credit risk exposures. The investments in these securities are viewed as a way to maintain a readily available source to meet any funding requirements.

The Bank does not hold any collateral for financial assets other than loans and advances to customers and letters of guarantee. For credit related commitments, commitments to extend credit, representing unused portions of authorisations to extend credit in the form of loans or guarantees, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as all commitments are contingent upon customers providing the requested collateral.

4.2.2. Maximum exposure to credit risk before collateral held or other credit enhancements

The table below shows the maximum exposure to credit risk for both on-balance sheet and off-balance sheet components. The maximum exposure is shown gross, without taking into consideration any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

	2017 EUR000	2016 EUR000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Balances with central banks	2.002.505	1.036.151
Loans and advances to banks	69.978	144.740
Financial assets at fair value through profit or loss:		
- Debt instruments	159.310	289.676
Derivative financial instruments	13.332	14.613
Loans and advances to customers:		
- Legal entities by purpose of facility:		
· Project finance	405.719	440.174
· Current activity financing	2.409.429	2.351.633
· Reverse repurchase agreements	102.719	169.812
· Other	3.890.542	4.124.537
- Individuals by purpose of facility:		
· Mortgage	14.497	14.856
· Reverse repurchase agreements	12.076	5.584
· Other	25.508	34.110
Other financial assets	14.563	10.152
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	16.920	17.514
Loan commitments	119.466	528.459
At 31 December	**9.256.564**	**9.182.011**

Where financial instruments are recorded at fair value the amounts shown above represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

4.2.3. Loans and advances

	Loans and advances to customers		Loans and advances to banks		Balances with central banks	
	2017 EUR000	2016 EUR000	2017 EUR000	2016 EUR000	2017 EUR000	2016 EUR000
Neither past due nor impaired	6.871.136	7.134.881	69.978	144.740	2.002.505	1.036.151
Past due but not impaired	105	-	-	-	-	-
Impaired	14.476	60.240	-	-	-	-
Gross	**6.885.717**	**7.195.121**	**69.978**	**144.740**	**2.002.505**	**1.036.151**
Less: allowance for impairment	(25.227)	(54.415)	-	-	-	-
Net	**6.860.490**	**7.140.706**	**69.978**	**144.740**	**2.002.505**	**1.036.151**

The total impairment provision for loans and advances is EUR25.227 thousand (2016: EUR54.415 thousand), which represents the accumulated provision on both the individually and collectively impaired loans.

A. Loans and advances to customers neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to collateral held. The disclosure below represents the lower of the gross carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. For the purposes of the table below, the loans and advances to customers secured by guarantees are classified under guarantees, without taking into consideration further collateral held.

	Loans and advances to customers							
	Legal entities				Individuals			
Purpose of facility	Project finance EUR000	Current activity financing EUR000	Reverse repos EUR000	Other EUR000	Mortgage EUR000	Reverse repos EUR000	Other EUR000	Total loans and advances to customers EUR000
At 31 December 2017								
Credit quality by type of collateral:								
Cash	178.717	31.126	-	384.776	-	-	14.600	609.219
Securities	98.017	132.607	102.719	72.954	-	12.076	-	418.373
Guarantees	-	1.651.644	-	3.369.355	-	-	-	5.020.999
Other (including immovable property)	131.638	555.744	-	64.536	12.266	-	10.464	774.648
Unsecured	-	47.415	-	38	-	-	444	47.897
Total	**408.372**	**2.418.536**	**102.719**	**3.891.659**	**12.266**	**12.076**	**25.508**	**6.871.136**
At 31 December 2016								
Credit quality by type of collateral:								
Cash	173.990	141.054	-	423.869	-	-	25.114	764.027
Securities	100.221	200.003	169.812	35.594	-	5.584	-	511.214
Guarantees	-	1.467.468	-	3.619.102	-	-	-	5.086.570
Other (including immovable property)	166.699	509.314	-	46.183	14.606	-	8.384	745.186
Unsecured	-	27.229	-	43	-	-	612	27.884
Total	**440.910**	**2.345.068**	**169.812**	**4.124.791**	**14.606**	**5.584**	**34.110**	**7.134.881**

B. Loans and advances to banks neither past due nor impaired

The table below presents an analysis of credit quality of loans and advances to banks which are neither past due nor impaired based on Moody's ratings (ratings of Standard & Poor's were retranslated into Moody's equivalent). No collateral is held for any of the below balances.

	2017 EUR000	2016 EUR000
Loans and advances to banks		
Aa1 - Aa3	99	3
A1 - A3	41.106	114.085
Baa1 - Baa3	143	595
Ba1 - Ba3	28.599	29.973
Unrated	31	84
	69.978	**144.740**

C. **Balances with central banks**

These comprise balances with the Central Bank of Cyprus of EUR1.960.838 thousand (2016: EUR991.117 thousand), the Bank's regulatory supervisory body, and with the Central Bank of Luxembourg of EUR41.667 thousand (2016: EUR45.034 thousand) relating to the Bank's branch in Luxembourg. No collateral is held for any of these balances.

D. **Loans and advances to customers past due but not impaired**

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The amount of loans and advances to customers by class that were past due but not impaired were as follows:

Purpose of facility	Legal entities Current activity financing EUR000	Individuals Mortgage EUR000	Individuals Other EUR000	Total loans and advances to customers EUR000
At 31 December 2017				
1 to 90 days	30	-	-	30
90 days to 1 year	75	-	-	75
More than 1 year	-	-	-	-
Total	**105**	**-**	**-**	**105**
Financial effect of collateral	**-**	**-**	**-**	**-**
At 31 December 2016				
1 to 90 days	-	-	-	-
90 days to 1 year	-	-	-	-
More than 1 year	-	-	-	-
Total	**-**	**-**	**-**	**-**
Financial effect of collateral	**-**	**-**	**-**	**-**

E. **Loans and advances to banks past due but not impaired**

As of 31 December 2017 and 31 December 2016 there were no loans and advances to banks which were past due but not impaired.

F. **Loans and advances individually impaired**

The gross amounts of individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is EUR14.476 thousand (2016: EUR60.240 thousand).

The breakdown of the gross amount of individually impaired loans and advances by class, along with the financial effect of related collateral held by the Bank as security, are as follows:

	Legal entities			Individuals		
Purpose of facility	Project finance EUR000	Current activity financing EUR000	Other EUR000	Mortgage EUR000	Other EUR000	Total loans and advances to customers EUR000
At 31 December 2017						
Individually impaired loans	6.723	2.273	-	4.149	1.331	14.476
Financial effect of collateral	-	-	-	2.231	-	2.231
At 31 December 2016						
Individually impaired loans	7.649	51.088	-	1.503	-	60.240
Financial effect of collateral	-	15.233	-	250	-	15.483

The Bank did not have any individually impaired loans and advances with banks or Central Banks as of 31 December 2017 and 31 December 2016.

4.2.4. Debt instruments

The table below presents an analysis of debt instruments at 31 December 2017 and 2016, based on Moody's ratings (ratings of Standard & Poor's were retranslated into Moody's equivalent):

	Debt securities EUR000	Total EUR000
At 31 December 2017		
A1 - A3	13.111	13.111
Baa1 - Baa3	74.410	74.410
Ba1 - Ba3	71.789	71.789
Total	**159.310**	**159.310**
At 31 December 2016		
A1 - A3	69.972	69.972
Baa1 - Baa3	160.058	160.058
Ba1 - Ba2	10.094	10.094
B1	49.552	49.552
Total	**289.676**	**289.676**

None of the debt instruments in the Bank's trading book are either past due or impaired as of 31 December 2017 and 31 December 2016.

4.2.5. Repossessed collateral

As of 31 December 2017 and 31 December 2016, the Bank did not have any significant assets which have been the result of possession of collateral held as security.

4.2.6. Other financial assets

The Bank did not have any past due or impaired other financial assets as of 31 December 2017 and 31 December 2016.

4.2.7. Concentration of risks of financial assets with credit risk exposure

A. Geographical concentration

The following table breaks down the Bank's main credit exposures at their carrying amounts, as categorised by geographical region as of 31 December 2017 and 31 December 2016. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Cyprus EUR000	Europe EUR000	Russia EUR000	America EUR000	Other countries EUR000	Total EUR000
Credit risk exposures relating to on-balance sheet assets are as follows:						
Balances with central banks	1.960.838	41.667	-	-	-	2.002.505
Loans and advances to banks	-	29.045	16.991	23.941	1	69.978
Financial assets at fair value through profit or loss:						
- Debt instruments	48.310	87.521	23.479	-	-	159.310
Derivative financial instruments	6.587	3.856	2.792	-	97	13.332
Loans and advances to customers:						
- Legal entities by purpose of facility:						
· Project finance	125.842	43.670	181.061	-	55.146	405.719
· Current activity financing	1.102.020	1.243.469	11.724	-	52.216	2.409.429
· Reverse repurchase agreements	13.889	-	-	-	88.830	102.719
· Other purposes	1.792.874	13.701	2.028.924	-	55.043	3.890.542
- Individuals by purpose of facility:						
· Mortgage	11.620	-	2.877	-	-	14.497
· Reverse repurchase agreements	12.076	-	-	-	-	12.076
· Other purposes	20.878	4.154	472	-	4	25.508
Other financial assets	11.556	2.300	43	-	664	14.563
Credit risk exposures relating to off-balance sheet items are as follows:						
Financial guarantees	6.867	671	9.367	-	15	16.920
Loan commitments	75.790	20.609	10.934	-	12.133	119.466
At 31 December 2017	**5.189.147**	**1.490.663**	**2.288.664**	**23.941**	**264.149**	**9.256.564**
At 31 December 2016	**3.948.636**	**1.958.977**	**2.740.123**	**76.080**	**458.195**	**9.182.011**

The majority of the Bank's loans and advances to customers are with entities with operations in the Russian Federation and CIS countries.

B. Reporting by country of presence

The following table breaks down the Bank's business parameters as categorised by region of business establishment as of 31 December 2017 and 31 December 2016.

	31 December 2017			31 December 2016		
	RCB Bank Ltd	RCB Bank Ltd, Luxembourg Branch	Total	RCB Bank Ltd	RCB Bank Ltd, Luxembourg Branch	Total
Geographical location	**Cyprus**	**Luxembourg**		**Cyprus**	**Luxembourg**	
Turnover (gross interest and commission income)	487.765	13.528	501.293	396.921	15.670	412.591
Number of employees on a FTE basis	382	11	393	348	9	357
Profit before tax	110.543	3.072	113.615	93.842	3.189	97.031
Tax on profit	(15.781)	(651)	(16.432)	(14.224)	(1.141)	(15.365)
Public subsidies received	-	-	-	-	-	-

4.2.8. Disclosures as per the Central Bank of Cyprus "Directive issued to Credit Institutions on loan impairment and provisioning procedures"

A. Analysis of loans and advances according to their performance status

The table below presents an analysis of loan and advances to customers according to their performance status as of 31 December 2017.

	Gross carrying amount				Accumulated impairment			
			Of which exposures with forbearance measures				Of which exposures with forbearance measures	
	Total EUR000	Of which on non-performing exposures EUR000	EUR000	Of which on non-performing EUR000	EUR000	Of which on non-performing exposures EUR000	EUR000	Of which on non-performing EUR000
Loans and advances	**6.885.717**	**14.883**	**35.983**	**7.110**	**(25.227)**	**(12.245)**	**(7.363)**	**(6.961)**
- General governments	-	-	-	-	-	-	-	-
- Other financial corporations	6.159.520	7.130	24.520	6.723	(12.375)	(6.723)	(6.934)	(6.723)
- Non-financial corporations	670.867	2.273	11.076	-	(9.603)	(2.273)	(191)	-
· Of which: Small and Medium-sized Enterprises	132.837	-	11.076	-	(1.523)	-	(191)	-
· Of which: Commercial real estate	356.196	-	11.076	-	(6.247)	-	(191)	-
· By sector:								
- Construction	387.158	-			(5.066)			
- Accommodation and food services activities	85.503	-			(348)			
- Real estate activities	81.392	-			(1.357)			
- Whole sale and retail trade	33.465	-			(57)			
- Manufacturing	27.659	2.273			(2.352)			
- Other	55.690	-			(423)			
- Households	55.330	5.480	387	387	(3.249)	(3.249)	(238)	(238)
· Of which: Residential mortgage loans	16.937	2.609	-	-	(665)	(665)	-	-
· Of which: Credit for consumption	1.297	1	-	-	-	(1)	-	-

There was no impairment in accordance with IAS39 for performing loans which were classified as exposures with forbearance measures as of 31 December 2017 and 2016 since these borrowers are expected to fully meet their commitments.

The table below presents an analysis of loan and advances to customers according to their performance status as of 31 December 2016.

	Gross carrying amount				Accumulated impairment			
			Of which exposures with forbearance measures				Of which exposures with forbearance measures	
	Total	Of which on non-performing exposures		Of which on non-performing		Of which on non-performing exposures		Of which on non-performing
	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000	EUR000
Loans and advances	**7.195.121**	**60.240**	**162.583**	**59.110**	**(54.415)**	**(44.757)**	**(44.406)**	**(43.743)**
- General governments	-	-	-	-	-	-	-	-
- Other financial corporations	6.403.318	51.687	71.942	51.687	(44.019)	(41.445)	(41.576)	(41.445)
- Non-financial corporations	736.000	7.050	90.268	7.050	(9.143)	(2.059)	(2.591)	(2.059)
· Of which: Small and Medium-sized Enterprises	164.939	7.050	19.092	7.050	(2.628)	(2.059)	(2.256)	(2.059)
· Of which: Commercial real estate	309.107	-	83.218	-	(5.004)	-	(531)	-
· By sector:								
- Construction	337.830	-			(4.466)			
- Manufacturing	114.274	7.050			(2.706)			
- Real estate activities	82.425	-			(914)			
- Accommodation and food services activities	58.394	-			(36)			
- Mining and quarrying	56.529	-			(588)			
- Other	86.548	-			(433)			
- Households	55.803	1.503	373	373	(1.253)	(1.253)	(239)	(239)
· Of which: Residential mortgage loans	18.591	-	-	-	-	-	-	-
· Of which: Credit for consumption	1.675	1	-	-	-	-	-	-

The definitions of non-performing exposures and forborne exposures are in accordance with the provisions of Commission Implementing Regulation (EU) 2015/227 of 9 January 2015 amending Implementing Regulation (EU) No 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

Non-performing exposures are those that satisfy either or both of the following criteria:

I. material exposures which are more than 90 days past due,
II. the debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past due amount or of the number of the days past due.

Forborne exposures are debt contracts in respect of which forbearance measures have been applied. Forbearance measures consist of concessions towards a debtor that is experiencing or about to experience difficulties in meeting its financial commitments.

Concession refers to either of the following actions:

I. a modification of the previous terms and conditions of a contract the debtor is considered unable to comply with due to its financial difficulties (“troubled debt”) to allow for sufficient debt service ability, that would not have been granted had the debtor not been in financial difficulties,
II. a total or partial refinancing of a troubled debt contract, that would not have been granted had the debtor not been in financial difficulties.

B. Analysis of loans and advances according to their origination date

The table below presents an analysis of loans and advances to customers as at 31 December 2017 (excluding general governments) analysed on the basis of their origination date.

	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Total loans granted	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000
Within 1 year	472.810	407	(2.529)	190.921	-	(394)	257.873	407	(2.135)	24.016	-	-
1 - 2 years	3.381.215	6.212	(10.600)	172.731	2.273	(7.704)	3.193.731	-	(900)	14.753	3.939	(1.996)
2 - 3 years	209.239	-	(1.397)	41.412	-	(313)	162.863	-	(1.084)	4.964	-	-
3 - 5 years	2.611.535	-	(2.725)	87.086	-	(1.192)	2.514.832	-	(1.533)	9.617	-	-
5 - 7 years	180.697	1.541	(1.253)	178.717	-	-	-	-	-	1.980	1.541	(1.253)
7 - 10 years	30.221	6.723	(6.723)	-	-	-	30.221	6.723	(6.723)	-	-	-
Total	**6.885.717**	**14.883**	**(25.227)**	**670.867**	**2.273**	**(9.603)**	**6.159.520**	**7.130**	**(12.375)**	**55.330**	**5.480**	**(3.249)**

Accumulated impairment includes both individual and collective impairment (Note 17).

The table below presents an analysis of loans and advances to customers as at 31 December 2016 (excluding general governments) analysed on the basis of their origination date.

	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Total loans granted	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000	Gross carrying amount EUR000	Non- performing loans EUR000	Accumulated impairment EUR000
Within 1 year	3.372.926	-	(6.128)	326.635	-	(5.433)	3.024.455	-	(695)	21.836	-	-
1 - 2 years	269.787	7.050	(2.870)	103.364	7.050	(2.544)	147.412	-	(326)	19.011	-	-
2 - 3 years	2.897.482	-	(2.691)	167.581	-	(1.166)	2.720.967	-	(1.525)	8.934	-	-
3 - 5 years	572.846	-	(28)	138.420	-	-	429.907	-	(28)	4.519	-	-
5 - 7 years	53.191	53.190	(42.698)	-	-	-	51.688	51.687	(41.445)	1.503	1.503	(1.253)
7 - 10 years	28.889	-	-	-	-	-	28.889	-	-	-	-	-
Total	**7.195.121**	**60.240**	**(54.415)**	**736.000**	**7.050**	**(9.143)**	**6.403.318**	**51.687**	**(44.019)**	**55.803**	**1.503**	**(1.253)**

4.3. Market risk and interest rate risk

The Bank takes on exposure to market risks, which is the risk of financial loss resulting from adverse changes in the value of losses in on-balance sheet and off-balance sheet positions arising from movements in the market variables across several risk factors including fixed income, equity, foreign exchange and interest rates. Market risk can arise from both trading and non-trading activities. Both are subject to the market risk control framework. Market risks are actively taken as part of trading activities, both proprietary trading and for trading for account of clients. General market risk can also arise from non-trading activities as a result of mismatches in the currencies, maturities or interest rate reset dates of assets and liabilities and associated off-balance sheet instruments. Market risks arise from open positions in currency and interest rates. The Bank is not exposed to market risk arising from commodity prices.

Interest rate risk in the banking book is the risk arising from potential changes in interest rates that would affect the profitability of the Bank due to maturity bucket gaps of non-trading assets and liabilities as well as off-balance sheet items.

The market risk and interest rate risk measurement, monitoring and control framework is implemented with the use of both qualitative and quantitative tools. The former include policies, procedures, authorities and reporting requirements whereas the latter include risk measures, trading controls and limits in a variety of forms (including stress and statistical loss measures, sensitivity and potential loss measures and market values, nominals or notionals as appropriate, restrictions at portfolio level etc.).

4.3.1. Currency risk

Currency risk is the risk that the foreign exchange rates will change affecting the value of the Bank's foreign exchange position and consequently the value of the Bank's balance sheet. The Credit, Assets and Liabilities Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. Any foreign currency positions are short term and for operational purposes. The Bank uses currency derivative contracts as part of its management of currency risk.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2017 and 2016. Included in the table are the Bank's financial assets and financial liabilities at carrying amounts as well as off-balance sheet instruments, categorised by currency. For derivative financial instruments, nominal expected inflows and outflows under open contracts are included.

	RUR EUR000	EUR EUR000	USD EUR000	Other EUR000	Total EUR000
As at 31 December 2017					
Assets					
Cash and balances with central banks	139	2.005.031	1.290	295	2.006.755
Loans and advances to banks	10.343	9.787	43.476	6.372	69.978
Financial assets at fair value through profit or loss	23.479	135.831	-	-	159.310
Derivative financial instruments	127.285	620.302	(736.078)	1.823	13.332
Loans and advances to customers	345.866	553.586	5.811.682	149.356	6.860.490
Other financial assets	80	8.979	5.246	258	14.563
Total financial assets	**507.192**	**3.333.516**	**5.125.616**	**158.104**	**9.124.428**
Liabilities					
Deposits from banks	207.149	100.208	5.028.924	-	5.336.281
Due to customers	61.859	1.353.363	1.537.425	56.872	3.009.519
Financial liabilities at fair value through profit or loss	-	-	1.865	-	1.865
Derivative financial instruments	231.453	1.697.664	(2.002.447)	96.157	22.827
Debt securities in issue	-	149.147	871	2.676	152.694
Other financial liabilities	7.750	31.545	35.451	2.203	76.949
Subordinated debt	-	-	83.808	-	83.808
Total financial liabilities	**508.211**	**3.331.927**	**4.685.897**	**157.908**	**8.683.943**
Net currency position	**(1.019)**	**1.589**	**439.719**	**196**	**440.485**
Off-balance sheet commitments	**24.343**	**109.033**	**229**	**2.781**	**136.386**
As at 31 December 2016					
Assets					
Cash and balances with central banks	127	1.038.165	3.112	213	1.041.617
Loans and advances to banks	29.159	10.565	79.500	25.516	144.740
Financial assets at fair value through profit or loss	-	289.676	-	-	289.676
Derivative financial instruments	24.643	(435.027)	424.997	-	14.613
Loans and advances to customers	273.539	508.970	6.320.414	37.783	7.140.706
Other financial assets	80	3.388	6.408	276	10.152
Total financial assets	**327.548**	**1.415.737**	**6.834.431**	**63.788**	**8.641.504**
Liabilities					
Deposits from banks	189.435	31.553	4.951.929	-	5.172.917
Due to customers	61.047	856.079	1.756.615	61.043	2.734.784
Financial liabilities at fair value through profit or loss	-	-	5.492	-	5.492
Derivative financial instruments	73.787	478.543	(547.661)	(117)	4.552
Debt securities in issue	-	10.946	36.231	2.729	49.906
Other financial liabilities	5.504	40.393	50.292	114	96.303
Subordinated debt	-	-	95.352	-	95.352
Total financial liabilities	**329.773**	**1.417.514**	**6.348.250**	**63.769**	**8.159.306**
Net currency position	**(2.225)**	**(1.777)**	**486.181**	**19**	**482.198**
Off-balance sheet commitments	**443.294**	**67.366**	**29.166**	**6.147**	**545.973**

The following table demonstrates the sensitivity to a reasonable possible change in foreign exchange rates with all other variables held constant on the Bank's post tax profit.

Currency	Change in currency rate %	Effect on post tax profit EUR000
2017		
RUR	+/-10	-/+89
EUR	+/-10	+/- 139
Other	+/-10	+/- 17
2016		
RUR	+/-30	-/+584
EUR	+/-10	-/+155
Other	+/-10	+/-2

4.3.2. Interest rate risk

Interest rate risk in the Bank's trading book is the risk that changes in the market interest rates will adversely affect the value of the fixed income portfolio. Interest rate risk in the banking book (repricing risk) is the risk that arises from timing differences in the maturity (for fixed-rate instruments) and repricing (for floating-rate instruments) of the Bank's assets, liabilities and off-balance sheet positions.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates. Financial assets and liabilities at fair value through profit or loss held by the Bank can be disposed of at any time due to their nature. Therefore, they do not subject the Bank to any significant interest rate risk. As a result, they have been classified in the "up to 1 month" category for the interest rate risk table below.

	Up to 1 month EUR000	1-3 months EUR000	3-6 months EUR000	6-12 months EUR000	Over 1 year EUR000	Overdue EUR000	Non-interest bearing EUR000	Total EUR000
At 31 December 2017								
Assets								
Cash and loans and advances to banks and central banks	2.056.302	2.540	10.846	2.642	153	-	4.250	2.076.733
Financial assets at fair value through profit or loss	159.310	-	-	-	-	-	-	159.310
Derivatives	-	-	-	-	-	-	13.332	13.332
Loans and advances to customers	421.376	764.420	246.730	1.940.032	3.485.701	2.231	-	6.860.490
Other financial assets	-	-	-	-	-	-	14.563	14.563
Total financial assets	**2.636.988**	**766.960**	**257.576**	**1.942.674**	**3.485.854**	**2.231**	**32.145**	**9.124.428**
Liabilities								
Deposits from banks	5.051.402	73.193	45.198	-	166.488	-	-	5.336.281
Due to customers	1.704.764	602.084	228.402	341.342	132.927	-	-	3.009.519
Financial liabilities at fair value through profit or loss	1.865	-	-	-	-	-	-	1.865
Derivatives	-	-	-	-	-	-	22.827	22.827
Debt securities in issue	10.070	118.004	853	21.091	2.676	-	-	152.694
Other financial liabilities	-	-	-	-	-	-	76.949	76.949
Subordinated debt	-	426	-	-	83.382	-	-	83.808
Total financial liabilities	**6.768.101**	**793.707**	**274.453**	**362.433**	**385.473**	**-**	**99.776**	**8.683.943**
Net interest sensitivity gap	**(4.131.113)**	**(26.747)**	**(16.877)**	**1.580.241**	**3.100.381**	**2.231**	**(67.631)**	**440.485**
At 31 December 2016								
Total financial assets	2.323.403	272.029	164.131	1.802.980	4.039.519	9.211	30.231	8.641.504
Total financial liabilities	6.351.019	134.497	162.508	843.279	569.994	-	98.009	8.159.306
Net interest sensitivity gap	**(4.027.616)**	**137.532**	**1.623**	**959.701**	**3.469.525**	**9.211**	**(67.778)**	**482.198**

The interest rate risk associated with interest-bearing financial instruments is mitigated as a result of controlled matching of loans granted with related funding. Management is monitoring the matching of loans and related funding on a regular basis.

The following table demonstrates the sensitivity on the Bank's post-tax profit to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the Bank's post tax profit is the effect of changes in interest rates which are reasonably possible at the reporting dates which arises on floating rate financial assets and financial liabilities as well as on debt securities at fair value through profit or loss as at 31 December 2017 and 2016.

	Increase /decrease in basis points	Sensitivity of profit after tax EUR000
Sensitivity as of 31 December 2017	+/-100	+17.420/-18.266
Sensitivity as of 31 December 2016	+/-100	+11.108/-13.820

4.4. Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, the Treasury Department monitors the liquidity of the Bank on a daily basis by:

- Managing future cash flows to ensure that requirements are met;
- Maintaining a portfolio of highly marketable securities that can easily be liquidated against any unforeseen interruption to cash flow; and
- Managing balance sheet liquidity ratios against internal and regulatory requirements.

The expected cash outflows match in general with the expected cash inflows from assets.

The table below presents the undiscounted cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. Financial liabilities at fair value through profit or loss are disclosed within "Up to 1 month" category.

	Up to 1 month EUR000	1-3 months EUR000	3-12 months EUR000	Over 1 year EUR000	Total EUR000
As at 31 December 2017					
Financial liabilities					
Deposits from banks	5.046.267	73.368	22.811	824.272	5.966.718
Due to customers	1.704.988	605.619	576.551	137.415	3.024.573
Financial liabilities at fair value through profit or loss	1.865	-	-	-	1.865
Debt securities in issue	10.072	118.030	22.185	3.084	153.371
Other financial liabilities	66.679	2.762	7.206	302	76.949
Subordinated debt	-	1.507	4.422	86.313	92.242
Total financial liabilities	**6.829.871**	**801.286**	**633.175**	**1.051.386**	**9.315.718**
As at 31 December 2016					
Financial liabilities					
Deposits from banks	4.987.917	-	28.796	795.103	5.811.816
Due to customers	1.350.098	124.606	1.008.454	283.931	2.767.089
Financial liabilities at fair value through profit or loss	5.492	-	-	-	5.492
Debt securities in issue	1.038	413	1.316	49.994	52.761
Other financial liabilities	94.829	299	656	519	96.303
Subordinated debt	-	1.714	5.031	104.909	111.654
Total financial liabilities	**6.439.374**	**127.032**	**1.044.253**	**1.234.456**	**8.845.115**

4.5. Derivative financial instruments

The table below analyses the Bank's derivative financial instruments into relevant maturity groupings based on the remaining period at the date of the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. These include foreign currency derivatives.

	Up to 1 month EUR000	1-3 months EUR000	3-12 months EUR000	Over 1 year EUR000	Total EUR000
At 31 December 2017					
Gross settled foreign exchange derivatives:					
- Inflow	2.406.882	70.484	258.529	-	2.735.895
- Outflow	(2.415.303)	(70.828)	(259.503)	-	(2.745.634)
Net settled foreign exchange derivatives:					
- Net inflow	1.243	-	-	-	1.243
- Net outflow	(999)	-	-	-	(999)
Total inflow	**2.408.125**	**70.484**	**258.529**	**-**	**2.737.138**
Total outflow	**(2.416.302)**	**(70.828)**	**(259.503)**	**-**	**(2.746.633)**
At 31 December 2016					
Gross settled foreign exchange derivatives:					
- Inflow	851.572	-	209.805	-	1.061.377
- Outflow	(854.855)	-	(196.461)	-	(1.051.316)
Total inflow	**851.572**	**-**	**209.805**	**-**	**1.061.377**
Total outflow	**(854.855)**	**-**	**(196.461)**	**-**	**(1.051.316)**

4.6. Off-balance sheet items

A. Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 29) are summarised in the table below.

B. Other credit related commitments

Other credit related commitments (Note 29) are also included in the table below, based on the earliest contractual maturity date.

C. Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 29, are summarised in the table below.

The table below summarises the Bank's contractual undiscounted cash flows arising from off-balance sheet items.

	Up to 1 month EUR000	1-3 months EUR000	3-12 months EUR000	Over 1 year EUR000	Total EUR000
At 31 December 2017					
Loan commitments	119.466	-	-	-	119.466
Financial guarantees	16.920	-	-	-	16.920
Operating lease commitments	131	262	947	1.374	2.714
Total	**136.517**	**262**	**947**	**1.374**	**139.100**
At 31 December 2016					
Loan commitments	528.459	-	-	-	528.459
Financial guarantees	17.514	-	-	-	17.514
Operating lease commitments	141	533	1.876	5.704	8.254
Total	**546.114**	**533**	**1.876**	**5.704**	**554.227**

4.7. Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. This definition includes correspondent banking risk, conduct risk, information and communication technology risk, compliance risk, legal risk, strategic risk and reputational risk as well as model risk. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. In 2017 and 2016, the Bank was managing operational risk through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

4.8. Fair values

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value.

	Carrying value		Fair value	
	2017 EUR000	2016 EUR000	2017 EUR000	2016 EUR000
Financial assets				
Balances with central banks	2.002.505	1.036.151	2.002.505	1.036.151
Loans and advances to banks	69.978	144.740	69.978	144.740
Loans and advances to customers	6.860.490	7.140.706	6.860.254	7.139.636
Other financial assets	14.563	10.152	14.563	10.152
Financial liabilities				
Deposits from banks	5.336.281	5.172.917	5.336.281	5.172.917
Due to customers	3.009.519	2.734.784	3.010.088	2.736.682
Debt securities in issue	152.694	49.906	152.694	49.906
Other financial liabilities	76.949	96.303	76.949	96.303
Subordinated debt	83.808	95.352	83.808	95.352

I. Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The fair value of floating rate placements and overnight deposits equals their carrying amount. The estimated fair value of fixed interest bearing placements is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk, currency and maturity (ranging from 0% to 9,2%). According to their valuation method are included in level 2.

II. Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received and according to their valuation method are included in level 3. Expected cash flows are discounted at current market rates to determine fair value (ranging from 0,5% to 15% according to credit risk, currency and maturity).

III. Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar currency and maturity (ranging from 0,01% to 15% for banks and from 0,01% to 11,5% for customers). According to their valuation method are included in level 3. The fair value of amounts due to banks approximates their carrying value.

IV. Debt securities in issue and subordinated debt

The aggregate fair values are calculated using discounted cash flow models based on a current yield curve appropriate for the remaining term to maturity (ranging from 0,1% to 7,1% according to currency and maturity). According to their valuation method are included in level 3. The fair value of debt securities in issue and subordinated debt approximates their carrying values.

V. Other financial assets/other financial liabilities

Other financial assets and liabilities are included in Level 3 (2016: Level 3).

VI. Balances with central banks

The fair value of balances with central banks approximates their carrying amount.

The table below analyses financial instruments carried at fair value by valuation method.

The different levels have been defined as follows:

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

Recurring fair value measurements are those that the accounting standards require or permit in the statement of financial position at the end of each reporting period. The levels in the fair value hierarchy into which the recurring fair value measurements categorised are as follows:

	Level 1 EUR000	Level 2 EUR000	Level 3 EUR000	Total EUR000
Assets				
At 31 December 2017				
Financial assets at fair value through profit or loss:				
- Debt instruments held-for-trading	159.310	-	-	159.310
- Derivatives	-	13.332	-	13.332
Total assets measured at fair value	**159.310**	**13.332**	**-**	**172.642**
At 31 December 2016				
Financial assets at fair value through profit or loss:				
- Debt instruments held-for-trading	289.676	-	-	289.676
- Derivatives	-	14.613	-	14.613
Total assets measured at fair value	**289.676**	**14.613**	**-**	**304.289**
Liabilities				
At 31 December 2017				
Financial liabilities at fair value through profit or loss:				
- Short positions in debt instruments	1.865	-	-	1.865
- Derivatives	-	22.827	-	22.827
Total liabilities measured at fair value	**1.865**	**22.827**	**-**	**24.692**
At 31 December 2016				
Financial liabilities at fair value through profit or loss:				
- Short positions in debt instruments	5.492	-	-	5.492
- Derivatives	-	4.552	-	4.552
Total liabilities measured at fair value	**5.492**	**4.552**	**-**	**10.044**

There were no transfers of assets of liabilities between levels during the years ended 31 December 2017 and 2016.

4.9. Offsetting financial assets and liabilities

The Bank did not offset any financial assets or financial liabilities under enforceable master netting arrangements or any similar agreements.

4.10. Capital risk management

The Bank's objectives when managing regulatory capital are:

- to comply with the capital requirements set by the European Central Bank and the Central Bank of Cyprus;
- to safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

In order to evaluate the capital level which is sufficient in relation to the risks to which the institution is exposed, the Bank has adopted the Internal Capital Adequacy Assessment Process (ICAAP).

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the European Central Bank and the Central Bank of Cyprus (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires the Bank to: (a) have minimum initial capital of EUR5.125.804 and (b) maintain a minimum regulatory ratio of total regulatory capital to risk-weighted assets.

The Bank's regulatory capital as managed by its Risk Management Department is divided into two tiers, the main components of which are:

- Tier 1 capital: share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital; and
- Tier 2 capital: capital instruments, subordinated loan and share premium resulting from the issue of instruments included in Tier 2 Capital, provided that they meet specific regulatory requirements.

The risk-weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral guarantees or other risk mitigant. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2017 and 2016. During those two years, the Bank complied with all of the externally set capital requirements to which it was subject.

	2017 EUR000	2016 EUR000
Tier 1 capital		
Share capital	18.471	18.471
Share premium	120.600	120.600
Retained earnings and translation reserve	304.808	365.950
Less: Prudential filters	(161)	(293)
Less: Intangible assets	(1.307)	(1.620)
Total qualifying Tier 1 capital	**442.411**	**503.108**
Tier 2 capital		
Subordinated loan capital	23.804	46.056
Additional eligible Tier 2 Capital	-	9.657
Total qualifying Tier 2 capital	**23.804**	**55.713**
Total regulatory capital	**466.215**	**558.821**
Risk-weighted assets	**2.195.649**	**2.419.392**
Capital adequacy ratio	**21,2%**	**23,1%**

4.11. Financial instruments by category including reclassifications

The accounting policies for financial instruments have been applied to the line items below:

	Loans and receivables EUR000	Assets at fair value through profit or loss EUR000	Total EUR000
31 December 2017			
Assets as per balance sheet			
Cash and balances with central banks	2.006.755	-	2.006.755
Loans and advances to banks	69.978	-	69.978
Financial assets at fair value through profit or loss	-	159.310	159.310
Derivative financial instruments	-	13.332	13.332
Loans and advances to customers	6.860.490	-	6.860.490
Other financial assets	14.563	-	14.563
Total	**8.951.786**	**172.642**	**9.124.428**
	Liabilities at fair value through profit or loss EUR000	Other financial liabilities EUR000	Total EUR000
31 December 2017			
Liabilities as per balance sheet			
Deposits from banks	-	5.336.281	5.336.281
Due to customers	-	3.009.519	3.009.519
Financial liabilities at fair value through profit or loss	1.865	-	1.865
Derivative financial instruments	22.827	-	22.827
Debt securities in issue	-	152.694	152.694
Other financial liabilities	-	76.949	76.949
Subordinated debt	-	83.808	83.808
Total	**24.692**	**8.659.251**	**8.683.943**

	Loans and receivables EUR000	Assets at fair value through profit or loss EUR000	Total EUR000
31 December 2016			
Assets as per balance sheet			
Cash and balances with central banks	1.041.617	-	1.041.617
Loans and advances to banks	144.740	-	144.740
Financial assets at fair value through profit or loss	-	289.676	289.676
Derivative financial instruments	-	14.613	14.613
Loans and advances to customers	7.140.706	-	7.140.706
Other financial assets	10.152	-	10.152
Total	**8.337.215**	**304.289**	**8.641.504**

	Liabilities at fair value through profit or loss EUR000	Other financial liabilities EUR000	Total EUR000
31 December 2016			
Liabilities as per balance sheet			
Deposits from banks	-	5.172.917	5.172.917
Due to customers	-	2.734.784	2.734.784
Financial liabilities at fair value through profit or loss	5.492	-	5.492
Derivative financial instruments	4.552	-	4.552
Debt securities in issue	-	49.906	49.906
Other financial liabilities	-	96.303	96.303
Subordinated debt	-	95.352	95.352
Total	**10.044**	**8.149.262**	**8.159.306**

4.12. Transfers of financial assets

A. Repurchase and Securities lending transactions

At 31 December 2017 and 2016, the Bank did not have any securities pledged for the purpose of entering into repurchase transactions and did not have any lended securities.

B. Loans

At 31 December 2017, the Bank had loans granted to customers carried at amortised cost amounting to EUR594.158 thousand (2016: EUR760.831 thousand) that were issued under participation agreements under which the Bank retained the right to the contractual cash flows but undertook the obligation to pay the cash flows to other parties. These were not derecognised as some of the pass-through arrangement conditions were not met. The Bank is not exposed to credit risk as this has been transferred to the participants. At 31 December 2017, the related liabilities amounting to EUR594.158 thousand (2016: EUR760.831 thousand) were recognised as deposits from banks and due to customers.

5. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

- **Impairment losses on loans and advances to customers**
  The Bank regularly reviews its loan portfolio to assess impairment. In determining whether an impairment loss should be recorded in profit or loss for the year, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the loans under assessment. 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 group. 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.

  The sensitivity of the Bank's post tax profit is the effect of a change in PDs which is reasonably possible with all other variables held constant at the reporting dates as at 31 December 2017 and 2016. A change in PDs as at 31 December 2017 by 10% would cause an effect on post tax profit of EUR1,378 thousand (31 December 2016: EUR920 thousand).

- **Initial recognition of related party transactions**
  In the normal course of business the Bank enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. More specifically, in order to determine probabilities of default, the Bank utilizes modelling techniques that are based on a customer's credit rating, industry and other financial particulars. Loss given default is modelled on the basis of the nature and value of collaterals in place, including the application of appropriate prudential haircuts, where applicable. Where applicable, expected future recoveries are discounted to present value over an appropriate discount horizon using the original effective interest rate of the loan.

6. Net interest income

	Note	2017 EUR000	2016 EUR000
Interest income			
Balances with central banks		-	2
Loans and advances to banks and customers		489.755	404.714
		489.755	**404.716**
Interest expense			
Deposits from banks and due to customers		263.922	163.836
Debt securities in issue		1.085	6.298
Subordinated debt	27	6.345	6.494
		271.352	**176.628**

Interest income includes EUR3.219 thousand (2016: EUR1.467 thousand), recognised on impaired loans to customers.

7. Loan impairment charges

	Note	2017 EUR000	2016 EUR000
Loans and advances to customers			
Net increase in impairment	17	39.302	11.591

8. Net fee and commission income

	2017 EUR000	2016 EUR000
Fee and commission income		
Commission income on cash collection and settlement operations	5.515	3.959
Commission income on depository services*	1.766	336
Commission income on operations with securities	730	784
Commission income on guarantees issued	229	175
Commission income on agency operations	1.702	1.054
Other commission income	1.596	1.567
	11.538	**7.875**
Fee and commission expense		
Commission expense on settlement operations	1.549	927
Commission expense on depository services*	196	464
Commission expense on operations with securities	6	1
Other commission expense	11	90
	1.762	**1.482**

* The Bank provides services in a custodian and fiduciary capacity to third parties. Assets held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had fiduciary accounts amounting to a nominal value of EUR1.928.041 thousand (2016: EUR1.735.453 thousand).

9. Other gains - net

	2017 EUR000	2016 EUR000
Net gains on financial assets held for trading:		
- Debt securities	6.046	4.314
Net foreign exchange transaction gains including net results on currency derivatives	18.557	10.752
Net gains on sale of debt instruments from loan portfolio	1.056	164
Other	121	1.738
	25.780	**16.968**

10. Administration and operating expenses

	Note	2017 EUR000	2016 EUR000
Depreciation of plant and equipment	18	2.800	3.078
Amortisation of intangible assets	19	588	1.555
Profit on sale of plant and equipment	18	(24)	(399)
Operating lease rentals		2.487	2.743
Professional and travelling services		14.818	70.865
Auditor's remuneration-statutory audit firm		427	378
Staff costs	11	44.499	44.339
Taxes other than income tax		3.536	3.009
Advertising, promotion and donations		11.935	6.766
Post and telecommunication expenses		986	988
Other expenses		12.031	9.505
Single resolution fund contribution		6.959	-
		101.042	**142.827**

The professional services stated above include fees of EUR178 thousand (2016: EUR98 thousand) for tax consultancy and compliance services, EUR69 thousand (2016: EUR40 thousand) for other assurance services, and EUR526 thousand (2016: EUR577 thousand) for other services charged by the Bank's statutory audit firm.

11. Staff costs

	2017 EUR000	2016 EUR000
Salaries and fees	37.987	38.132
Social insurance and other contributions	2.268	2.192
Provident and indemnity fund contributions	2.637	2.540
Medical fund	1.187	1.115
Other staff costs	420	360
	44.499	**44.339**

The average number of employees during the year was 373 (2016: 331).

12. Income tax expense

	Note	2017 EUR000	2016 EUR000
Current tax:			
- Corporation tax		16.409	15.460
Deferred tax	20	23	(95)
		16.432	**15.365**

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

	2017 EUR000	2016 EUR000
Profit before tax	**113.615**	**97.031**
Tax calculated at the applicable corporation tax rates	14.648	12.887
Tax effect of expenses not deductible for tax purposes	2.356	5.526
Tax effect of allowances and income not subject to tax	(572)	(3.048)
Income tax charge	**16.432**	**15.365**

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

Under certain conditions, interest may be exempt from Cyprus income tax and be subject only to special contribution for defence at the rate of 30%.

In certain cases dividends received from abroad may be subject to Cyprus special contribution for defence at the rate of 17%. In certain cases, dividends received from other Cyprus tax resident companies may also be subject to special contribution for defence.

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

The Luxembourg branch of the Bank is subject to Luxembourg corporate income tax at the rate of 20,33% and to Luxembourg municipal business tax at the rate of 6,75% (i.e. effective combined rate of 27,08% on its taxable profits).

13. Cash and balances with central banks

	Note	2017 EUR000	2016 EUR000
Cash in hand		4.250	5.466
Balances with central banks other than mandatory reserve deposits		1.925.869	971.874
Included in cash and cash equivalents	**30**	**1.930.119**	**977.340**
Mandatory reserve deposits with central banks		76.636	64.277
		2.006.755	**1.041.617**

All cash and balances with central banks are expected to be recovered within twelve months of the balance sheet date with the exception of non-current portion of mandatory reserve deposit with central banks in the amount of EUR153 thousand (2016: EUR1.555 thousand) which is expected to be recovered after twelve months of the balance sheet date. The mandatory reserve deposits are not available for use in the Bank's day to day operations. The mandatory reserve deposits are interest bearing.

14. Loans and advances to banks

	Note	2017 EUR000	2016 EUR000
Amounts in course of collection from other banks	30	61.958	136.130
Loans and advances to other banks		8.020	8.610
		69.978	**144.740**

At 31 December 2017 the total aggregate amount of balances with top 5 counterparties was EUR60.685 thousand (2016: EUR143.680 thousand).

All loans and advances to banks are expected to be recovered within twelve months of the balance sheet date with the exception of EURNil (2016: EUR8.618 thousand) which is expected to be recovered after twelve months of the balance sheet date.

15. Financial assets at fair value through profit or loss

	2017 EUR000	2016 EUR000
Financial assets held-for-trading:		
Government bonds	48.312	50.658
Corporate bonds	110.998	239.018
Total held-for-trading	**159.310**	**289.676**

All financial assets at fair value through profit or loss are expected to be recovered within twelve months of the balance sheet date. Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in operating assets in the statement of cash flows.

Net gains on financial assets at fair value through profit or loss are recorded in “other gains - net” (Note 9).

16. Derivative financial instruments

The Bank uses currency derivative instruments for hedging its exposure to Russian Roubles and Euro and also at the request of its clients. The latter are hedged by entering into equivalent currency derivative contracts with the same but opposite terms with other parties.

Currency derivatives represent commitments to purchase foreign and domestic currency.

The notional amounts of currency derivative contracts 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 risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which 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 value of the currency derivative contracts is determined using inputs from observable market data, such as the current forward exchange rates, and after applying discounting to the estimated future cash flows. Further disclosure is provided in Notes 4.3.1 and 4.5.

All assets and liabilities on trading derivatives are expected to be recovered/settled within twelve months of the balance sheet date.

17. Loans and advances to customers

	2017 EUR000	2016 EUR000
Gross loans and advances to customers		
Legal entities by purpose of facility:		
- Project finance	415.095	448.559
- Current activity financing	2.420.914	2.396.156
- Reverse repurchase agreements	102.719	169.812
- Other purposes	3.891.659	4.124.791
Total gross loans to legal entities	**6.830.387**	**7.139.318**
Individuals by purpose of facility:		
- Mortgage	16.415	16.109
- Reverse repurchase agreements	12.076	5.584
- Other purposes	26.839	34.110
Total gross loans to individuals	**55.330**	**55.803**
Total gross loans and advances to customers	**6.885.717**	**7.195.121**
Less: Provision for loan losses		
Specific impairment allowance		
Legal entities by purpose of facility:		
- Project finance	(6.723)	(7.649)
- Current activity financing	(2.273)	(35.855)
Provision for loan losses for legal entities	**(8.996)**	**(43.504)**
Individuals by purpose of facility:		
- Mortgage	(1.918)	(1.253)
- Other purposes	(1.331)	-
Provision for loan losses for individuals	**(3.249)**	**(1.253)**
	(12.245)	**(44.757)**

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	2017 EUR000	2016 EUR000
Collective impairment allowance		
Legal entities by purpose of facility:		
- Project finance	(2.653)	(736)
- Current activity financing	(9.212)	(8.668)
- Other purposes	(1.117)	(254)
Provision for loan losses for legal entities	**(12.982)**	**(9.658)**
Total provision for loan losses	**(25.227)**	**(54.415)**
Net loans and advances to customers		
Legal entities by purpose of facility		
- Project finance	405.719	440.174
- Current activity financing	2.409.429	2.351.633
- Reverse repurchase agreements	102.719	169.812
- Other purposes	3.890.542	4.124.537
Total net loans to legal entities	**6.808.409**	**7.086.156**
Individuals by purpose of facility:		
- Mortgage	14.497	14.856
- Reverse repurchase agreements	12.076	5.584
- Other purposes	25.508	34.110
Total net loans to individuals	**52.081**	**54.550**
Total net loans and advances to customers	**6.860.490**	**7.140.706**
Current	890.382	1.211.056
Non-current	5.970.108	5.929.650
	6.860.490	**7.140.706**

Reverse repurchase agreements comprise agreements with clients for resale of securities. The Bank has an obligation to return the securities to the clients on maturity of the agreements. The fair value of the securities held as collateral on 31 December 2017 is EUR154.486 thousand (2016: EUR229.483 thousand).

At 31 December 2017 the total aggregate amount of balances with top 30 counterparties was EUR6.491.179 thousand (2016: EUR6.727.917 thousand).

Refer to Note 4.8 for the disclosure of the fair value of loans and advances to customers. Information on related party balances is disclosed in Note 31.

Movement in allowance for losses on loans and advances to customers:

	Note	2017 EUR000	2016 EUR000
At 1 January:			
Individually impaired			
Legal entities by purpose of facility:			
- Project finance		7.649	7.405
- Current activity finance		35.855	35.092
Individuals by purpose of facility:			
- Mortgage		1.253	630
- Other		-	321
		44.757	**43.448**
Collectively impaired			
Legal entities by purpose of facility:			
- Project finance		736	-
- Current activity finance		8.668	-
- Other		254	-
		9.658	**-**
Total at 1 January		**54.415**	**43.448**
Movement for the year:			
Increase/(decrease) in specific impairment allowance:			
- Legal entities - project finance		-	1
- Legal entities - current activity financing		33.450	1.768
- Individuals - mortgage		706	636
- Individuals - other		1.379	(11)
		35.535	**2.394**
Increase in collective impairment allowance:			
- Legal entities - project finance		1.685	701
- Legal entities - current activity financing		896	8.255
- Legal entities - other		1.186	241
		3.767	**9.197**
Loan impairment charges	7	**39.302**	**11.591**
Net foreign exchange gain/(losses)		2.223	(59)
Currency translation differences		(5.195)	1.881
Movements due to disposals:			
- Legal entities - current activity financing		(65.518)	(2.142)
- Individuals - other		-	(304)
		(65.518)	**(2.446)**
At 31 December:			
Individually impaired			
Legal entities by purpose of facility:			
- Project finance		6.723	7.649
- Current activity finance		2.273	35.855
Individuals by purpose of facility:			
- Mortgage		1.918	1.253
- Other		1.331	-
		12.245	**44.757**

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	Note	2017 EUR000	2016 EUR000
Collectively impaired			
Legal entities by purpose of facility:			
- Project finance		2.653	736
- Current activity finance		9.212	8.668
- Other		1.117	254
		12.982	**9.658**
Total at 31 December		**25.227**	**54.415**

18. Property, plant and equipment

	Note	Land and buildings EUR000	Furniture and equipment EUR000	Motor vehicles and other transportation EUR000	Total EUR000
At 1 January 2016					
Cost or fair value		27.725	9.644	2.311	39.680
Accumulated depreciation		(6.515)	(5.282)	(1.358)	(13.155)
Net book amount		**21.210**	**4.362**	**953**	**26.525**
Year ended 31 December 2016					
Opening net book amount		21.210	4.362	953	26.525
Additions		1.143	851	676	2.670
Disposals		(3.066)	(13)	(165)	(3.244)
Depreciation charge	10	(1.484)	(947)	(647)	(3.078)
Currency translation difference		524	139	24	687
Closing net book amount		**18.327**	**4.392**	**841**	**23.560**
At 31 December 2016					
Cost or fair value		25.948	10.714	1.952	38.614
Accumulated depreciation		(7.621)	(6.322)	(1.111)	(15.054)
Net book amount		**18.327**	**4.392**	**841**	**23.560**
Year ended 31 December 2017					
Opening net book amount		18.327	4.392	841	23.560
Additions		1.948	757	2.321	5.026
Disposals		-	(3)	(45)	(48)
Depreciation charge	10	(1.415)	(1.138)	(247)	(2.800)
Currency translation difference		(2.250)	(510)	(218)	(2.978)
Closing net book amount		**16.610**	**3.498**	**2.652**	**22.760**
At 31 December 2017					
Cost or fair value		24.641	10.120	3.618	38.379
Accumulated depreciation		(8.031)	(6.622)	(966)	(15.619)
Net book amount		**16.610**	**3.498**	**2.652**	**22.760**

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

	Note	2017 EUR000	2016 EUR000
Net book amount		48	3.244
Profit on sale of plant and equipment	10	24	399
Proceeds from sale of plant and equipment		**72**	**3.643**

As at 31 December 2017 and 2016 the carrying amount of the land and buildings which are carried at fair value approximates the carrying amount had the historical cost basis been used instead of the fair value basis. The fair value as at 31 December 2017 and 2016 is determined by reference to the most recent arm's length transactions with third parties on the acquisition of these properties and market based evidence which indicates that there were no significant movements in fair value since the occurrence of these transactions. The land and buildings are categorised as Level 2 in the fair value hierarchy.

19. Intangible assets

	Note	Computer Software EUR000
At 1 January 2016		
Cost		8.575
Accumulated amortisation		(5.691)
Net book amount		**2.884**
Year ended 31 December 2016		
Opening net book amount		2.884
Additions		260
Amortisation charge	10	(1.555)
Currency translation difference		31
Closing net book amount		**1.620**
At 31 December 2016		
Cost		9.130
Accumulated amortisation		(7.510)
Net book amount		**1.620**
Year ended 31 December 2017		
Opening net book amount		1.620
Additions		465
Amortisation charge	10	(588)
Currency translation difference		(190)
Closing net book amount		**1.307**
At 31 December 2017		
Cost		8.462
Accumulated amortisation		(7.155)
Net book amount		**1.307**

20. Deferred income tax assets and liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	2017 EUR000	2016 EUR000
Deferred income tax assets:		
Deferred income asset tax to be recovered after more than 12 months	327	397
Deferred income tax assets	**327**	**397**

The gross movement on the deferred income tax account is as follows:

	Note	2017 EUR000	2016 EUR000
At 1 January		397	288
Profit or loss credit	12	(23)	95
Currency translation difference		(47)	14
At 31 December		**327**	**397**

The movement on the deferred income tax assets during the year which arise from the difference between depreciation and wear and tear allowance of property, plant and equipment and intangible assets is as follows:

Deferred tax assets	Total EUR000
At 1 January 2016	**288**
Credited to profit or loss	95
Currency translation difference	14
At 31 December 2016/ 1 January 2017	**397**
Credited to profit or loss	(23)
Currency translation difference	(47)
At 31 December 2017	**327**

21. Other assets

	2017 EUR000	2016 EUR000
Other receivables	12.615	7.789
Prepayments	3.623	6.621
Refundable deposits	3.405	3.481
	19.643	**17.891**
Financial assets	14.563	10.152
Non-financial assets	5.080	7.739
	19.643	**17.891**

All other assets are expected to be recovered within twelve months of the balance sheet date. They are neither past due nor impaired and the counterparties had no default in the past.

22. Deposits from banks

	2017 EUR000	2016 EUR000
Deposits from other banks	5.336.281	5.172.917
Current	5.126.164	4.987.751
Non-current	210.117	185.166
	5.336.281	**5.172.917**

At 31 December 2017 the total aggregate amount of balances with top 5 counterparties was EUR5.326.241 thousand (2016: EUR5.172.916 thousand). Information on related parties balances is disclosed in Note 31.

23. Due to customers

	2017 EUR000	2016 EUR000
Demand deposits	1.532.815	1.333.802
Fixed term deposits	1.031.128	800.007
Pledged deposits	445.576	600.975
	3.009.519	**2.734.784**
Current	2.876.593	2.459.396
Non-current	132.926	275.388
	3.009.519	**2.734.784**

Pledged deposits are held as collateral for credit facilities granted or guarantees issued to customers.

At 31 December 2017 the total aggregate amount of balances with top 30 counterparties was EUR1.267.409 thousand (2016: EUR1.350.449 thousand).

24. Financial liabilities at fair value through profit or loss

	2017 EUR000	2016 EUR000
Financial liabilities held-for-trading:		
- Obligation on delivery of debt securities which were sold (short positions on securities)	1.865	5.492

All financial liabilities at fair value through profit or loss are due within twelve months of the balance sheet date.

25. Debt securities in issue

	2017 EUR000	2016 EUR000
Promissory notes issued	152.694	49.906
Current	150.018	2.755
Non-current	2.676	47.151
	152.694	**49.906**

Promissory notes classified as “non-current” in the prior year were redeemed during the year.

26. Other liabilities

	2017 EUR000	2016 EUR000
Amounts in course of settlement	38.796	48.439
Accruals	36.878	28.058
Other payables	7.841	25.909
	83.515	**102.406**
Financial liabilities	76.949	96.303
Non-financial liabilities	6.566	6.103
	83.515	**102.406**
Current	83.213	101.886
Non-current	302	520
	83.515	**102.406**

27. Subordinated debt

	Note	2017 EUR000	2016 EUR000
At 1 January		95.352	92.304
Interest expense	6	6.345	6.494
Repayments of interest		(6.345)	(6.476)
Currency translation difference		(11.544)	3.030
At 31 December		**83.808**	**95.352**
Current		426	484
Non-current		83.382	94.868
		83.808	**95.352**

The subordinated debt was granted by a shareholder of the Bank (Note 31), carries a fixed interest rate of 7,07% per annum and is repayable in June 2019. The debt ranks after all other creditors in the case of liquidation.

28. Share capital and share premium

	2017			2016		
	Number of shares	Share capital EUR000	Share premium EUR000	Number of shares	Share capital EUR000	Share premium EUR000
Authorised						
Ordinary shares of EUR1,71 each	10 801 469	18.471		10 801 469	18.471	
Issued and fully paid						
At 1 January	10 801 469	18.471	120.600	10 801 469	18.471	120.600
At 31 December	10 801 469	18.471	120.600	10 801 469	18.471	120.600

29. Contingent liabilities and commitments

A. Legal proceedings

As at 31 December 2017 and 31 December 2016 there was a pending claim against the Bank from a former employee. Based on legal advice, the Bank's Board of Directors believes that there is sufficient defence against this claim and no significant loss is expected to arise for the Bank. Therefore no provision has been made in the financial statements in relation to this claim.

B. Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to customers as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit related commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Outstanding credit related commitments are as follows:

	2017 EUR000	2016 EUR000
Guarantees issued	16.920	17.514
Commitments to extend credit:		
- Committed undrawn credit facilities	119.466	528.459
	136.386	**545.973**

The total committed undrawn credit facilities relate to loan facilities granted to clients. EUR11.432 thousand (2016: EUR398.018 thousand) of these commitments relate to loans collateralised by deposits or bank guarantees.

C. Operating lease commitments - where the Bank is the lessee

The lease expenditure charged in administration and operating expenses during the year is disclosed in Note 10. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 EUR000	2016 EUR000
Not later than 1 year	1.340	2.550
Later than 1 year and not later than 5 years	1.374	5.301
More than 5 years	-	403
	2.714	**8.254**

D. Capital commitments

At 31 December 2017, the Bank had capital commitments amounting to EUR260 thousand (2016: EUR644 thousand).

30. Cash and cash equivalents

For the purposes of the statement of cash flows the cash and cash equivalents comprise the following:

	Note	2017 EUR000	2016 EUR000
Cash and balances with central banks	13	1.930.119	977.340
Amounts in course of collection from other banks	14	61.958	136.130
		1.992.077	**1.113.470**

31. Related party transactions and balances

The Bank does not have a controlling party.

In August 2017 the management of the Bank acquired the total shareholding of Bank Otkritie Financial Corporation amounting to a 19,85% stake. PJSC VTB Bank remains one of the largest shareholders whose shareholding stands at 46,29% as of 31 December 2016 and 31 December 2017.

A number of banking transactions were entered into with related parties in the normal course of business. These included loans, deposit taking, trading securities, issue of guarantees and other banking services. The outstanding balances from related party transactions at the year end and the related income and expense arising from these transactions during the year are as follows:

	Corporate shareholders with significant influence and entities under their control		Directors/Key management personnel and entities under their control		Other related parties	
	2017 EUR000	2016 EUR000	2017 EUR000	2016 EUR000	2017 EUR000	2016 EUR000
Assets						
Loans and advances to banks	25.256	30.012	-	-	-	7
Derivative financial instruments	3.856	14.574	-	-	-	-
Loans and advances to customers	23.499	113.436	11	6	-	-
Other assets	93	44	-	-	66	-
Liabilities						
Deposits from banks	5.236.089	5.164.904	-	-	-	-
Due to customers	37.133	49.997	69.630	31.021	334	710
Derivative financial instruments	16.735	4.486	-	-	-	-
Debt securities in issue	21.092	-	-	-	-	-
Other liabilities	9.288	19.534	2.036	1.336	-	-
Subordinated debt	83.808	95.352	-	-	-	-
Off balance sheet						
Letters of guarantee	1.835	1.876	19	17	-	-
Other credit related commitments	7.338	14.450	-	-	-	-
Statement of comprehensive income						
Interest income	3.618	3.475	-	-	-	-
Interest expense	212.735	86.641	1.429	1.062	13.315	26.301
Fee and commission income	277	182	42	39	-	6
Fee and commission expense	379	261	-	-	1	1
Collective impairment (reversal)/charges	(412)	427	-	-	-	-
Net gain on sale of debt instruments from loan portfolio	-	267	-	-	-	-
Administration and operating expenses	663	995	4.534	3.901	2.484	2.540
Other transactions						
Net carrying amount of loans and advances to customers covered by related party guarantees	5.196.990	5.139.560	-	-	-	-
Net carrying amount after provisions of loans and advances sold to related parties	49.500	-	-	-	-	-

Key management compensation

The compensation of key management and the close members of their families is as follows:

	2017 EUR000	2016 EUR000
Salaries and other short-term employee benefits	4.534	3.901

The total remuneration of the Directors (included in key management compensation above) was as follows:

	2017 EUR000	2016 EUR000
Director fees	662	707
Emoluments in their executive capacity	3.429	2.748
Other short-term benefits	443	446
	4.534	**3.901**

32. Dividends per share

In February 2016, the Shareholders approved a dividend payout out of reserves amounting to EUR128.629.180/ US$140.000.000 (EUR11,90849/US$12,96120 per share). The dividend was paid in the same month.

In December 2016, the Shareholders approved a dividend payout out of reserves amounting to EUR81.558.242/ US$85.000.000 (EUR7,55066/US$7,86930 per share). The dividend was paid in the same month.

In December 2017, the Shareholders approved a dividend payout out of reserves amounting to EUR74.092.999/ US$87.000.000 (EUR6,85953/US$8,05446 per share). The dividend was paid in the same month.

As of the date of authorisation of these financial statements for issue, the Board of Directors recommends a dividend payout out of reserves amounting to US$20.000.000 (US$1,85160 per share).

33. Investments in subsidiaries

The wholly owned subsidiary, RCB TRUSTEES (CYPRUS) LIMITED, is incorporated and domiciled in Cyprus and it is the only active subsidiary of the Bank. Its operations did not have material impact on these financial statements.

The wholly owned subsidiary, RCB CREDIT SYSTEM LTD, is incorporated and domiciled in Cyprus in September 2017. Its operations did not have any material impact on these financial statements as the company remained dormant.

The wholly owned subsidiary, RCB FINANCE LTD, is incorporated and domiciled in Cyprus in September 2017. Its operations did not have any material impact on these financial statements as the company remained dormant.

The indirect wholly owned subsidiary, LSA FINANCE DAC, is incorporated and domiciled in Ireland in September 2017. Its operations did not have any material impact on these financial statements as the company remained dormant.

34. Events after the balance sheet date

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

Independent Auditor's Report on pages 11 to 17.

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