ASTROBANK GROUP

Mid-Year Financial Report

Contents

	Page
Board of Directors and Professional Advisors	1
Interim Management Report	2 - 8
Interim Condensed Consolidated Income Statement	10
Interim Condensed Consolidated Statement of Comprehensive Income	11
Interim Condensed Consolidated Statement of Financial Position	12
Interim Condensed Consolidated Statement of Changes in Equity	13
Interim Condensed Consolidated Statement of Cash Flows	14
Notes to the Interim Condensed Consolidated Financial Statements	15 – 63
Independent Review Report to AstroBank Group	64

Board of Directors

Shadi Karam	Independent Non-Executive Chairman
Maurice Sehnaoui	Non-Executive Vice Chairman
George Appios	Executive Director & Chief Executive Officer
Bassam Diab	Non-Executive Director
Maria Dionyssiades	Independent Non-Executive Director
George Kourris	Independent Non-Executive Director
George Liakopoulos	Non-Executive Director
Constantinos St. Loizides	Non-Executive Director
Elena Orfanidou	Independent Non-Executive Director *(appointed on 24 July 2018)*
Costas Partassides	Independent Non-Executive Director
Marios A. Savvides	Executive Director & Deputy Chief Executive Officer
Socrates Solomides	Independent Non-Executive Director
Andreas Vassiliou	Independent Non-Executive Director
Raoul Nehme	Non-Executive Director *(resigned 3 July 2018)*

Executive Committee

George Appios	Chairman
Marios A. Savvides	Member
Neoclis Neocleous	Member
Raoul Nehme	Chairman *(resigned 30 May 2018)*

Secretary

Elli Photiadou
1, Spyrou Kyprianou Street
CY-1065 Nicosia
P O Box 25700
CY-1393 Nicosia
Cyprus

Independent Auditors

Ernst and Young Cyprus Ltd
Jean Nouvel Tower,
6 Stasinou Avenue,
1060, Nicosia
Cyprus

Headquarters/Registered office

1, Spyrou Kyprianou Street
CY-1065 Nicosia
P O Box 25700
CY-1393 Nicosia
Cyprus

Interim Management Report

The interim condensed consolidated financial statements relate to Astrobank Limited ("the Bank") together with its subsidiaries ("the Group"). The Bank was the holding company of the Group as at 30 June 2018.

1 Principal activities

The principal activity of the Bank, which is unchanged from 31 December 2017, is the provision of banking and financial services.

The principal activities of the property subsidiaries, which are unchanged from 31 December 2017 are the holding and administration of property acquired by the Bank in debt satisfaction. A separate subsidiary operates as an insurance broker.

2 Share premium decrease due to capital reduction, change in shareholding & capital injection

On 2 November 2017, the Board of Directors unanimously approved the reduction of the share premium of the Bank by €99.285.543 (representing the accumulated losses as per the separate financial statements of the Bank as at 31 December 2016) for the purpose of writing off the accumulated losses by an equivalent amount.

On 21 December 2017 all necessary regulatory and other approvals and consents were granted for the reduction of the share premium and the write off of the accumulated losses of the Bank.

3 Future developments/ prospects

The Group's strategy is focused towards organic growth of the loan portfolio, transaction business and the client base as well as, if opportunities present themselves, acquisitions in the banking sector that would lead to volume and cost synergies for the Bank. At the same time, in the short to medium term, priority for Executive Management remains the reduction of non-performing loans through restructurings, debt for asset swaps and negotiated settlements. The Group's strategic targets include the reduction of operating expenses as a proportion of income. In line with this strategic target/ objective, a Voluntary Early Retirement Scheme aiming for a reduction in personnel expenses and efficiency improvement was successfully completed in January 2018.

Through an agreement dated 31 July 2018 entered into between the Bank and USB Bank PLC ('USB'), it was agreed that the Bank shall acquire all the assets, liabilities and the banking business of USB, excluding only certain property assets, with a view to consolidate it with its own business. The agreement is expected to be completed before the end of the year following the satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited Reference Accounts) by the seller, seller's shareholder approval and successful completion of the capital raise on the part of the Bank.

With this acquisition, the Bank strengthens significantly its position in the Cyprus market by leveraging the synergies it creates. It is projected that, following completion, the Bank, will grow by more than 55% reaching Total Assets of more than €2 billion, with Gross Loans at €1,2 billion, Customer Deposits at €1,9 billion and Equity at circa €160m.

Interim Management Report (continued)

4 **Financial results**

Interim Condensed Consolidated Income Statement

	H1 2018	H1 2017
Net interest income	10.069.636	10.610.213
Net fee and commission income	5.250.025	4.581.159
Other income	878.250	731.292
Net gains on financial instrument transactions	8.300.469	2.038.693
Staff expenses	(11.580.136)	(8.813.470)
Depreciation and amortisation	(617.455)	(335.313)
Other operating expenses	(5.933.300)	(5.091.307)
Profit before provisions	**6.367.489**	**3.721.267**
Reversal of / (provision) for expected credit loss to cover credit risk on loans and advances to customers	39.468	(1.236.151)
(Provision for)/ reversal of expected credit loss on contractual commitments and guarantees	(452.849)	252.846
Credit loss expense on other financial instruments	336.570	-
Profit before tax	**6.290.678**	**2.737.962**
Income tax charge	(580.604)	(209.775)
Profit after tax	**5.710.074**	**2.528.187**

Interim Condensed Consolidated Balance Sheet

	30 June 2018	31 December 2017
Assets		
Cash and balances with Central Banks	389.624.473	326.932.139
Placements with other banks	72.524.244	51.629.291
Derivative financial instruments	198.289	32.267
Financial assets at fair value through profit or loss	18.823.844	28.035.336
Available for sale financial assets	-	226.859.009
Financial assets at fair value through other comprehensive income	6.990.945	-
Financial assets at amortised cost	261.473.496	-
Loans and advances to customers	523.334.989	513.519.525
Other assets	4.560.397	2.666.421
Investment properties	58.275.056	64.730.039
Property, plant and equipment	24.176.554	24.085.092
Intangible assets	1.216.446	935.780
Deferred tax asset	4.993.821	5.716.155
Total assets	**1.366.192.554**	**1.245.141.054**
Liabilities		
Amounts due to other banks and deposits from banks	7.558.879	2.480.674
Derivative financial instruments	929.792	470.110
Deposits and other customer accounts	1.230.100.419	1.103.199.997
Current tax liability	123.632	91.491
Other liabilities	19.216.320	21.813.798
Deferred tax liability	731.422	887.501
Total liabilities	**1.258.660.464**	**1.128.943.571**
Total equity	**107.532.090**	**116.197.483**
Total equity and liabilities	**1.366.192.554**	**1.245.141.054**

Interim Management Report (continued)

4 Financial results (continued)

Key Performance Indicators		30 June 2018	31 December 2017
Asset quality	NPE Ratio	53,8%	56,2%
	NPE Provision Coverage Ratio	55,8%	51,7%
Capital	CET 1 and Total Capital (Transitional)	15,2%	17,0%
Balance Sheet	Total assets (€m)	€1.366m	€1.245m
	Total Gross Loans (€m)	€747m	€724m
	Accumulated expected credit losses on loans and advances to customers/ Accumulated provisions (€m)	€224m	€210m
	Total Deposits (€m)	€1.230m	€1.103m
Liquidity	Liquid assets / Deposits	58,9%	55,2%
	Net Loans/Deposits	42,5%	46,5%
	Liquidity Coverage Ratio	326%	323%

Key Performance Indicators		30 June 2018	30 June 2017
Efficiency	Net interest margin (annualised)	1,7%	1,9%
	Fee and commission income/ Total Income	21,4%	25,5%
	Cost/ Income	74,0%	79,3%
Profitability	Return on Average Assets (annualised)	0,9%	0,4%
	Return on Average Equity (annualised)	10,3%	4,9%

5 Financial performance overview

The financial performance of the Group for the six-month period ended 30 June 2018 is set out on pages 10 and 11.

Income statement analysis

Net interest income (NII) for H1 2018 totaled €10.069.636 (H1 2017: €10.610.213) and net interest margin (NIM) for the period was 1,7% (H1 2017: 1,9%). The NII and NIM reduction primarily reflect the lower yield on liquid assets and competitive pressures on loan yields. Total net non-interest income for H1 2018 amounted to €14.428.744 (H1 2017: €7.351.144). The increase reflects primarily the gains on disposal of debt securities as well as higher net fee and commission income.

Total expenses for H1 2018 amounted to €18.130.891, increased by 27,3% compared to H1 2017. Increase in total expenses relates mainly to the Voluntary Early Retirement Scheme and the write off of leasehold improvements arising from branch renovations.

Interim Management Report (continued)

5 Financial performance overview (continued)

Income statement analysis (continued)

Operating profit before impairment charges and other provisions for the six month period ended 30 June 2018 amounted to €6.367.489 compared to €3.721.267 in H1 2017. Provisions for the impairment of customer loans and advances for H1 2018 totaled a release of € 39.468 compared to a charge of €1.236.151 in H1 2017. Profit after tax totaled €5.710.074 compared to a profit of €2.528.187 in H1 2017.

Statement of Financial Position analysis

The Group's total assets amounted to €1.366.192.554 (31 December 2017: €1.245.141.054) as at 30 June 2018, increased by 9,7% compared to December 2017.

Deposits

Customer deposits totaled €1.230.100.419 at 30 June 2018 (31 December 2017: €1.103.199.997), increased by 11,5%, mainly due to increased current and savings account balances of retail and foreign customers. They comprised of €1.039.671.545 deposits in Euro and €190.428.874 deposits in foreign currencies, mostly US Dollars and British pounds.

Deposits by type	30 June 2018	% of total deposits	31 December 2017	% of total deposits
Current accounts	€657,1m	53,4%	€545,7m	49,5%
Savings accounts	€87,6m	7,1%	€63,9m	5,8%
Term deposits	€485,4m	39,5%	€493,6m	44,7%
Total deposits	**€1.230,1m**	**100,0%**	**€1.103,2m**	**100,0%**

Customers deposits to total assets ratio stood at 90,0% as at 30 June 2018 (31 December 2017: 88,6%).

Loans and advances to customers

Gross loans totaled €747.371.227 at 30 June 2018 compared to €723.612.814 at 31 December 2017. On 30 June 2018, the Group net loans and advances to customers totaled €523.334.989 (compared to €513.519.525 at 31 December 2017).

The net loans to deposits ratio stood at 42,5% as at 30 June 2018 (31 December 2017: 46,5%).

Gross loans balance by type:

	30 June 2018	31 December 2017	Growth %
Consumer	€82,6m	€73,9m	11,8%
Housing	€128,5m	€125,6m	2,3%
Credit cards	€7,7m	€7,2m	6,9%
Corporate	€528,5m	€516,8m	2,3%
Gross loans	**€747,3m**	**€723,5m**	**3,3%**

Loan Portfolio Quality

Tackling the Group's loan portfolio quality remains high priority for Management. The Group continues to make steady progress across all asset quality metrics and the loan restructuring activity continues.

Non-Performing Exposures (NPEs) as defined by EBA decreased by €4.667.156 (1,1% decrease) during the six-month period ended 30 June 2018 to €401.764.273 (31 December 2017: €406.431.430, representing 53,8% (31 December 2017: 56,2%) of gross loans.

The provision coverage ratio of NPEs, rose to 55,8% at 30 June 2018, compared to 51,7% at 31 December 2017. The introduction of IFRS 9 on 01.01.2018 contributed to the improvement in the provision coverage of NPEs.

Interim Management Report (continued)

5 **Financial performance overview (continued)**

Statement of Financial Position analysis (continued)

Loans and advances to customers (continued)

Loan Portfolio Quality (continued)

Accumulated impairment losses amounted to €224.036.238 as at 30 June 2018 (31 December 2017: €210.093.289) and represented 30% of the total gross loans (31 December 2017: 29,0%).

Further details on the Loan portfolio of the Group are disclosed in Notes 17 and 29 to the Interim Condensed Consolidated Financial Statements.

Debt for asset swaps implemented during the six-month period ended 30 June 2018

During the six-month period ended 30 June 2018, the Group on-boarded €1.940.750 (31 December 2017: €33.493.949) of assets via the execution of debt for asset swaps and completed disposals of €8.985.365 (31 December 2017: €1.300.520).

As at 30 June 2018, assets held by the Group had a carrying value of €69.882.044.

	30 June 2018	31 December 2017
Assets held by the Group	€	€
Opening balance	76.955.083	43.387.237
On boarded assets	1.940.750	33.493.949
Disposals	(8.985.365)	(1.300.520)
Closing balance	**69.882.044**	**76.955.083**

6 **Capital base**

The primary objective of the Bank's capital management is to ensure compliance with the relevant regulatory capital requirements and maintenance of healthy capital adequacy ratios in order to support its growth and maximise the value for its shareholders. On 30 June 2018, the Bank maintained a Core Equity Tier 1 capital adequacy ratio (CET1) of 15,2%.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually. The amount that will be added each year will decrease based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five-years.

7 **IFRS 9 - Financial instruments**

The Group applied IFRS 9 on 1 January 2018. The new accounting standard allows the impact on the implementation date, 1 January 2018, to be recognised through equity rather than the income statement.

The Group's IFRS 9 impact on transition resulted in a decrease of shareholders' equity of €6,2 million and was primarily driven by a credit impairment provision. (Note 5)

8 **Liquidity risk**

As at and during the six month period ended 30 June 2018, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank. The liquidity coverage ratio stood at 326% (31 December 2017: 323%) compared to minimum requirement of 100%.

Details of the liquidity risk management are disclosed in Note 29 to the Interim Condensed Consolidated Financial Statements.

Interim Management Report (continued)

9 Operating Environment

Refer to Note 4 to the Interim Condensed Consolidated Financial Statements.

10 Going concern

The Board of Directors and Management have made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during the six month period ended 30 June 2018 and the developments up to the date of approval of these Interim Condensed Consolidated Financial Statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and the financial performance of the Group.

The Board of Directors and Management, taking into consideration the factors described below, are satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, that the going concern principle is appropriate:

- The Bank maintains healthy liquidity levels, with a liquidity coverage ratio as at 30 June 2018 of 326%, well in excess of the regulatory minimum of 100%;
- The Bank maintains a capital adequacy ratio as at 30 June 2018 of 15,2%, well in excess of the regulatory minimum;
- The Bank exhibits improving profitability, with a return to profit in 2017 and in the six months ended 30 June 2018;
- The Bank exhibits a high level of provision coverage of Non-Performing Exposures (NPEs) which has risen to 55,8% (compared to 51,7% at 31 December 2017), whilst NPE balances decreased by 1,1% during 2018.
- The acquisition of USB's business will improve AstroBank's share in the Cyprus market enabling the achievement of synergies and economies of scale. Following completion, total assets are expected to reach €2 billion, gross loans at €1,2 billion, customer deposits €1,9 billion and equity €160 million;
- Reflecting improving government finances, the progress achieved in the banking sector and benign macroeconomic conditions, the Cypriot sovereign has benefited from a series of upgrades. Most recently, in September 2018, S&P Global Ratings upgraded Cyprus' sovereign back to investment grade, followed in October 2018 by Fitch.

11 Principal risks and uncertainties

Like any banking group, the Group is exposed to a variety of risks, the most significant of which are credit risk, liquidity risk and market risk (including foreign exchange risk, interest rate risk and price risk). The Group monitors and manages these risks through various control mechanisms.

The Group's risk management programme focuses on the unpredictability of the economic environment in which it operates and seeks to minimise potential adverse effects on the Group's financial performance. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and to ensure adherence to limits. The risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors is assisted in this task by the Risk Committee and the Audit Committee which assess the adequacy of the risk management framework and the system of internal controls of the Group respectively.

The nature of the main risks that the Group is exposed to as well as the Group's risk management policies are described in Note 29 of the Interim Condensed Consolidated Financial Statements and Note 34 of the Annual Report for the year ended 31 December 2017.

Interim Management Report (continued)

12 Events after the reporting date

The events after the reporting date are disclosed in Note 33 of the Interim Condensed Consolidated Financial Statements.

By Order of the Board,

George Appios
Executive Director and Chief Executive Officer

30 October 2018

Interim Condensed Consolidated Financial Statements for the six months ended 30 June 2018

Condensed Consolidated Income Statement
for the six-month period ended 30 June 2018

	Note	Six months ended 30 June 2018 €	Six months ended 30 June 2017 €
Interest income		12.652.053	14.787.981
Interest similar to interest income		717.550	929.286
Interest expense		(3.299.967)	(5.107.054)
Net interest income	7	**10.069.636**	**10.610.213**
Fee and commission income		6.277.322	5.561.918
Fee and commission expense		(1.027.297)	(980.759)
Net fee and commission income	8	**5.250.025**	**4.581.159**
Other income	9	878.250	731.292
Net gains on financial instrument transactions	10	8.300.469	2.038.693
		24.498.380	**17.961.357**
Write off of leasehold improvements		(483.965)	(302)
Staff expenses	11	(11.580.136)	(8.813.470)
Depreciation and amortisation		(617.455)	(335.313)
Operating expenses	11	(5.449.335)	(5.091.005)
Profit before provisions		**6.367.489**	**3.721.267**
Reversal of / (provision) for expected credit loss to cover credit risk on loans and advances to customers	12	39.468	(1.236.151)
(Provision) for / reversal of expected credit loss to cover credit risk on contractual commitments and guarantees	12	(452.849)	252.846
Expected credit loss on other financial instruments	12	336.570	-
Profit before tax		**6.290.678**	**2.737.962**
Income tax	13	(580.604)	(209.775)
Profit for the period		**5.710.074**	**2.528.187**
Profit for the period attributable to :			
-Owners of the Bank		5.710.074	2.528.187
Profit for the period		**5.710.074**	**2.528.187**

Condensed Consolidated Statement of Comprehensive Income for the six-month period ended 30 June 2018

	Six months ended 30 June 2018 €	Six months ended 30 June 2017 €
Profit for the period after tax	**5.710.074**	**2.528.187**
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Equity investments at FVOCI – net change in fair value	677.705	-
	677.705	-
Items that are or may be reclassified subsequently to profit or loss:		
Debt instruments at fair value through other comprehensive income:		
Net losses on investments in debt instruments measured at FVOCI	(425.299)	-
Changes in allowance for expected credit losses	(337.643)	-
Reclassification to consolidated income statement upon disposal	(8.052.913)	-
	(8.138.150)	-
Available for sale financial assets:		
Available for sale financial assets – fair value reserve	-	(219.182)
Other comprehensive loss for the period after tax	**(8.138.150)**	**(219.182)**
Total comprehensive (loss) / income for the period	**(2.428.076)**	**2.309.005**
Total comprehensive (loss) / income for the period attributable to:		
-Owners of the Parent Bank	(2.428.076)	2.309.005
Total comprehensive (loss) / income for the period	**(2.428.076)**	**2.309.005**

Condensed Consolidated Statement of Financial Position as at 30 June 2018

	Note	30 June 2018 €	31 December 2017 €
Assets			
Cash and balances with Central Banks	14	389.624.473	326.932.139
Placements with other banks	15	72.524.244	51.629.291
Derivative financial instruments	27	198.289	32.267
Financial assets at fair value through profit or loss	19	18.823.844	28.035.336
Available for sale financial assets	18	-	226.859.009
Financial assets at fair value through other comprehensive income	18	6.990.945	-
Financial assets at amortised cost	16	261.473.496	-
Loans and other advances to customers	17	523.334.989	513.519.525
Other assets	21	4.560.397	2.666.421
Investment properties	20	58.275.056	64.730.039
Property, plant and equipment		24.176.554	24.085.092
Intangible assets		1.216.446	935.780
Deferred tax asset		4.993.821	5.716.155
Total assets		**1.366.192.554**	**1.245.141.054**
Liabilities			
Amounts due to other banks and deposits from banks	22	7.558.879	2.480.674
Derivative financial instruments	27	929.792	470.110
Deposits and other customer accounts	23	1.230.100.419	1.103.199.997
Current tax liability		123.632	91.491
Other liabilities	24	19.216.320	21.813.798
Deferred tax liability		731.422	887.501
Total liabilities		**1.258.660.464**	**1.128.943.571**
Equity			
Share capital	25	14.113.487	14.113.487
Share premium	25	88.554.704	88.554.704
Revaluation and other reserves		716.834	8.408.033
Retained earnings		4.147.065	5.121.259
Total equity attributable to the owners of the Parent Bank		**107.532.090**	**116.197.483**
Total equity		**107.532.090**	**116.197.483**
Total equity and liabilities		**1.366.192.554**	**1.245.141.054**

On 30 October 2018 the Board of Directors of AstroBank Limited approved these Interim Condensed Consolidated Financial Statements for issue.

George Appios, Managing Director & Chief Executive Officer

Marios Savvides, Director, Deputy Chief Executive Officer

Marina Strovolidou, Chief Financial Officer

Interim Consolidated Statement of Changes in Equity

	Attributable to the owners of the Parent Bank						
	Share Capital (Note 25)	Share Premium (Note 25)	Fair value reserve and other reserves	Retained earnings/ (Accumulated losses)	Total	Total Non-controlling Interests	Total equity
	€	€	€	€	€	€	€
2017							
Balance at 1st January	**14.113.487**	**187.840.247**	**315.057**	**(99.211.108)**	**103.057.683**	**-**	**103.057.683**
Total comprehensive income for the period net of taxation							
Profit for the period	-	-	-	2.528.187	2.528.187	-	2.528.187
Other comprehensive income for the period	-	-	(219.182)	-	(219.182)	-	(219.182)
Total comprehensive income for the period	-	-	(219.182)	2.528.187	2.309.005	-	2.309.005
Balance as at 30 June 2017	**14.113.487**	**187.840.247**	**95.875**	**(96.682.921)**	**105.366.688**	**-**	**105.366.688**
Balance at 1st January 2018	14.113.487	88.554.704	8.408.033	5.121.259	116.197.483	-	116.197.483
Impact of adopting IFRS 9 at 1 January 2018 (Note 5)	-	-	446.951	(6.684.268)	(6.237.317)	-	(6.237.317)
Restated balance at 1 January 2018	**14.113.487**	**88.554.704**	**8.854.984**	**(1.563.009)**	**109.960.166**	**-**	**109.960.166**
Total comprehensive income for the period net of taxation							
Profit for the period	-	-	-	5.710.074	5.710.074	-	5.710.074
Other comprehensive loss after tax for the period	-	-	(8.138.150)	-	(8.138.150)	-	(8.387.060)
Total comprehensive loss for the period	-	-	(8.138.150)	5.710.074	(2.428.076)	-	(2.428.076)
Balance as at 30 June 2018	**14.113.487**	**88.554.704**	**716.834**	**4.147.065**	**107.532.090**	**-**	**107.532.090**

Interim Consolidated Statement of Cash Flows for the six-month period ended 30 June 2018

	Six months ended 30 June 2018 €	Six months ended 30 June 2017 €
Cash flows from operating activities		
Profit for the period before tax	6.290.678	2.737.962
Adjustments for:		
Depreciation of property, plant and equipment, and amortisation of intangible assets	617.455	335.313
Net gain on disposal of available for sale financial assets	-	(933.614)
Net gain on disposal of instruments at fair value through other comprehensive income	(7.726.994)	-
Loss/ (gain) from disposal of financial assets at fair value through profit or loss	49.314	(332.642)
Write off of leasehold improvements	483.965	302
(Gain)/ loss from disposal of investment properties	(103.717)	1.400
Fair value gain on financial assets at fair value through profit or loss	96.452	-
Change in fair value of deemed derivative on equity shares	(677.705)	
Other income	(739.661)	(720.196)
	1.710.213	1.088.525
Changes in:		
Loans and other advances to customers	(11.756.214)	(2.416.839)
Deposits from and amounts due to other banks and customer accounts	131.978.627	9.818.436
Increase in mandatory deposits with the Central Bank of Cyprus	4.509.705	19.326.948
Other assets	(1.893.976)	(1.655.911)
Net position in derivative financial instruments	293.660	(560.320)
Other liabilities	(948.571)	7.297.568
Cash generated from operations	120.473.018	32.898.407
Tax Paid	-	-
Net cash generated from operations	120.473.018	32.898.407
Cash flows from / (used in) investing activities		
Purchase of property, plant and equipment	(1.045.664)	(99.787)
Purchase of intangible assets	(551.805)	(473.494)
Additions of financial assets at fair value through profit and loss	(6.221.305)	(10.430.290)
Disposal of financial assets at fair value through profit and loss	21.970.269	-
Acquisition of debt securities at amortised cost	(55.634.491)	(80.382.760)
Disposal of investment properties	8.367.309	197.500
Dividends received	739.661	720.196
Net cash generated from /(used in) investing activities	(32.376.026)	(90.468.635)
Cash flows from financing activities	-	-
Net increase/ (decrease) in cash and cash equivalents	88.096.992	(57.570.228)
Cash and cash equivalents at beginning of period	368.465.239	404.094.097
Cash and cash equivalents at end of the period	456.562.231	346.523.869

Non-cash transactions from investing activities

During the period the Group acquired property for the amount of €1,9m (H1 2017: €14,0m) via execution of debt for asset swaps as settlement for loan repayments. These are not included in cash flows from investing activities as they do not constitute cash flow movements.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

On 30 October 2018 the Board of Directors of the AstroBank Limited authorised for issue the interim condensed consolidated financial statements for the six-month period ended 30 June 2018.

1. GENERAL INFORMATION

Country of incorporation

Astrobank Limited (the "Bank") was incorporated in Cyprus as a private limited liability company (Reg. No. HE189515), in accordance with the provisions of the Cyprus Companies Law, Cap. 113. The registered office of the Bank is located at 1, Spyrou Kyprianou Street, CY-1065 Nicosia. AstroBank Group (the "Group") comprises the Bank and its subsidiaries.

The subsidiaries of the Group were incorporated in Cyprus in accordance with the provisions of the Cyprus Companies Law, Cap. 113 and their registered office is located at 1, Spyrou Kyprianou Street, CY-1065 Nicosia.

Principal activities

The principal activity of the Bank, which is unchanged from 31 December 2017, is the provision of banking and financial services.

The principal activities of the property subsidiaries, which are unchanged from last year are the holding and administration of property acquired by the Bank in debt satisfaction. A separate subsidiary is used as an insurance broker.

Unaudited financial statements

The Financial Statements have not been audited by the Group's external auditors.

The Group's external auditors have conducted a review in accordance with the International Standard on Review Engagements 2410 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with the Group's last Annual Consolidated Financial Statements for the year ended 31 December 2017 ('last annual financial statements') which are available at the Group's website (www.astrobank.com). They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

Basis of preparation

The Financial Statements have been prepared on a historical cost basis, except for properties held for own use and investment properties, investments at fair value through other comprehensive income, financial assets at fair value through profit or loss and derivative financial instruments that have been measured at fair value.

The Financial Statements are presented in Euro (€), which is the functional currency of the Bank.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparatives

The Group has not restated comparative information for 2017 for financial instruments within the scope of IFRS 9. Additionally, the recognition and measurement of credit losses under IFRS 9 differs from that under IAS 39. Therefore, the comparative information for 2017, which is reported under IAS 39 is not comparable to the information presented for 2018, which is reported under IFRS 9. New or amended interim disclosures are presented for the current period according to IFRS 7 as amended by the adoption of IFRS 9, where applicable, whereas comparative period disclosures are consistent with those made in the prior periods. Adjustments arising from the adoption of IFRS 9 have been recognised directly in equity as at 1 January 2018, as disclosed in Note 6.

Additionally, negative interest income on placements with Central banks and other banks amounting to €453.166 was reclassified from ‘Interest income’ to ‘Interest expense’.

Changes in significant accounting policies

The accounting policies adopted in the Interim Condensed Consolidated Financial Statements are consistent with the accounting policies adopted in the Annual Report and financial statements for the year ended 31 December 2017, except for the adoption of new and revised standards, interpretations and amendments to existing standards with effect from 1 January 2018 and onwards. The changes in accounting policies from the adoption of the new standards are described below.

New and amended standards and interpretations

The following Standards and interpretations are those standards and interpretations which are relevant and significant to the Group and which have been applied in the preparation of these interim condensed consolidated financial statements.

IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of application of 1 January 2018. The adoption resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Group did not early adopt any of IFRS 9 requirements in the previous periods.

The classification, measurement and impairment requirements were applied retrospectively by adjusting the balance sheet at the date of initial application. The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 pursuant to IAS 39 is reported in compliance with the accounting and measurement methods disclosed in the Annual Financial Report 2017 in Notes 14,15,16,17,18 and 34.

The Group’s impact from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and is disclosed in Note 6.

Changes in significant accounting policies from the adoption of IFRS 9

Initial recognition

An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

The policy on initial recognition of financial instruments has remained the same as described in the annual consolidated financial statements for the year ended 31 December 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Classification and measurement

The classification and measurement of financial assets depends on how these are managed as part of the Business Models the Group operates under and their contractual cash flow characteristics (whether the cash flows represent solely payments of principle and interest (SPPI)). These factors determine whether the financial assets are measured at amortised cost, fair value through other comprehensive income (FVTOCI) or fair value through profit or loss (FVTPL).

Financial assets measured at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions:

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

This classification relates to cash and balances with central banks, placements with other banks, loans and other advances to customers that pass the SPPI test, debt securities held under the 'Hold to collect' business model and other financial assets. These financial assets are measured at amortised cost using the effective interest rate method (EIR) less allowances for expected credit losses (ECL).

Financial assets measured at fair value through other comprehensive income

A financial asset is measured at FVOCI only if it meets both the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

This classification relates to debt securities held under the 'Hold to collect and sell' business model that pass the SPPI criterion. FVTOCI instruments are subsequently measured at fair value with unrealised gains and losses recognised in the consolidated statement of other comprehensive income. Upon derecognition, any accumulated balances in other comprehensive income are reclassified to the consolidated income statement in "Net gains on financial instrument transactions".

Financial assets measured at fair value through profit and loss

Equity investments are measured at fair value through profit and loss. On transition to IFRS 9 and on initial recognition thereafter, there is an option to make an irrevocable election for equity investments not held for trading and that meet the definition of Equity under IAS 32 'Financial Instruments: Presentation', to be measured at fair value through other comprehensive income. This election is made on an instrument-by instrument basis. Fair value gains or losses on these equity instruments are recognised in other comprehensive income and are not recycled to profit or loss upon derecognition but are transferred directly to retained earnings. Dividends on equity instruments are recognised in the consolidated income statement in "other income".

All other financial assets are measured at FVTPL with changes recognised in the consolidated income statement in "net gains of financial instruments transactions". These include financial assets acquired principally for trading, assets mandatorily measured on a fair value basis and derivatives.

Financial assets that fail the SPPI test are measured at FVTPL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Financial liabilities

Financial liabilities continue to be measured at amortised cost except those held for trading and derivative financial liabilities

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

On transition to IFRS 9, business models were determined on the date of initial application based on facts and circumstances that existed on 1 January 2018 and are re-assessed at each reporting date.

SPPI assessment

The Group assesses whether the individual financial assets' cash flows represent solely payments of principal and interest on the principal amount outstanding (SPPI criteria).

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for the other basic lending risks and costs (i.e. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This will include assessing whether the financial asset contains a contractual term that could change contractual cash flows such that it would not meet the SPPI criteria and be inconsistent with a basic lending arrangement. In making the assessment, the Group considers:

- contingent features;
- leverage features;
- prepayment and extension terms;
- convertible features;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money

In addition, where the contractual terms of a financial asset introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL. Interest income on these financial assets is recognised in the consolidated income statement in "interest similar to interest income".

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's "incurred loss" model with a forward looking "expected credit loss model". This requires considerable judgement over how changes in economic factors affect expected credit losses (ECLs), which will be determined on a probability-weighted basis.

The new impairment model applies to the following financial instruments that are not measured at FVTPL:
- financial assets that are measured at amortised cost or FVOCI ;
- lease receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

Under IFRS 9 no impairment loss is recognised on equity investments.

At initial recognition, an impairment allowance (or provision in the case of commitments and guarantees) is required for ECL resulting from default events that are possible within the next 12 months (12 month ECL), unless assets are deemed as purchased or originated credit impaired (POCI). Subsequently, in the event of a significant increase in credit risk since initial recognition, an impairment allowance is required resulting from all possible default events over the expected life of the financial instrument (lifetime ECL), otherwise the allowance is based on the 12 months ECL.

The Group groups its financial assets into Stage 1, Stage 2, Stage 3 and POCI for ECL measurement as described below:

Stage 1: Financial assets which have not had a significant increase in credit risk since initial recognition are considered to be Stage 1 and 12-month ECL is recognised.

Stage 2: Financial assets that are considered to have experienced a significant increase in credit risk since initial recognition are considered to be Stage 2 and lifetime losses are recognised.

Stage 3: Financial assets which are considered to be credit-impaired (refer to following section of the note on how the Group defines credit-impaired and default) and lifetime losses are recognised.

POCI: Purchased or originated financial assets are financial assets that are credit-impaired on initial recognition. POCI assets include loans purchased or originated at a deep discount that reflect incurred credit losses.

ECL is recognised in profit or loss with a corresponding ECL allowance reported as a decrease in the carrying value of financial assets measured at amortised cost on the balance sheet. For financial assets measured at fair value through other comprehensive income (OCI) the carrying value is not reduced, but the accumulated amount of impairment allowance is recognised in OCI. For off-balance sheet instruments, accumulated provisions for ECL are reported in 'Other liabilities', except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance-sheet exposure, as the Group cannot separately identify the ECL on the loan commitment from those on the on-balance sheet exposure component. ECL for the period is recognised within the consolidated income statement in 'Credit Losses to cover credit risk on loans and advances to customers'.

The Group calculates 12-month ECLs and lifetime ECLs either on an individual basis or collective basis, depending on the nature of the underlying portfolio of financial instruments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Impairment (continued)

The individual assessment is performed for individually significant stage 3 assets. A risk based approach is used on the selection criteria of the individually assessed population NPE or forborne NPE exposures above a certain amount. The ECL is calculated on an individually assessed basis and all relevant considerations of the expected future cash flows are taken into account (i.e. the realisable value of the collateral, the business prospects of the customer).

All customer exposures that are not individually assessed, are assessed on a collective basis. For the purposes of calculating ECL, exposures are grouped into granular portfolios/ segments with shared risk characteristics. The granularity is based on different levels of segmentation which, among other factors include customer type, exposure class and portfolio type.

Key impairment concepts

Impairment under IFRS 9 introduces a number of key concepts as described below.

Significant increase in credit risk

IFRS 9 requires that, in the event of a significant increase in credit risk, since initial recognition, the calculation basis of the loss allowance would change from 12 month ECLs to lifetime ECLs.

The assessment of whether credit risk has increased significantly since initial recognition is performed every quarter.

Significant credit risk increase for loans and advances to customers

The Group uses staging criteria to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The criteria for determining whether credit risk has increased significantly include a backstop based on delinquency and forbearance measures.

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

Low credit risk simplification is adopted for debt security instruments and balances with Central banks and placements with other banks with external credit ratings that are rated as investment grade. The assessment of low credit risk is based on the external credit rating. For debt securities and balances with Central banks and placements with other banks which are below investment grade, the low credit risk exemption does not apply and therefore an assessment of significant credit deterioration takes place, by comparing their credit rating at origination with the credit rating on the reporting date.

Significant deterioration in credit risk is considered to have occurred when the rating of the exposures drops to such an extent that the new rating relates to a riskier category (i.e. from a non-investment grade to speculative and then to highly speculative).

All financial assets are transferred out of Stage 2 into Stage 1, if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above.

Credit impaired and definition of default

Exposures that meet the non-performing exposure (NPE) definition as per European Banking Authority (EBA) standards are considered to be in default and hence Stage 3 (credit-impaired). Therefore such loans have ECL calculated on a lifetime basis and are considered to be in default for credit risk management purposes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Credit impaired and definition of default (continued)

According to the EBA standards and European Central Bank (ECB) Guidance to Banks on NPE (which was published in March 2017), NPEs are defined as those exposures that satisfy one of the following conditions:

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

When a specific part of the exposures of a customer that fulfil the NPE criteria set out above are greater than 20% of the gross carrying amount of all on balance sheet exposures of that customer, then the total customer exposure is classified as non-performing; otherwise only the problematic part of the exposure is classified as non-performing.

Exposures cease to be considered as NPEs and in such case are transferred out of Stage 3, only when all of the following conditions are met:

- The extension of forbearance measures does not lead to the recognition of impairment or default.
- One year has passed since the forbearance measures were extended. In case of grace period loans, the exposure can exit the NPE status one year after the end of the grace period.
- Following the forbearance measures and according to the post-forbearance conditions, there is no past due amount or concerns regarding the full repayment of the exposure.
- No unlikely-to-pay criteria exist for the debtor.
- The debtor has made post-forbearance payments of a not-insignificant amount of capital (different capital thresholds exist according to the restructuring type).

At the time an account ceases to be considered as NPE it exits Stage 3. If the loan is 30 days past due twice over the last 12 months it is transferred to Stage 2, otherwise it is transferred to Stage 1.

Debt securities, loans and advances to banks and balances with central banks are considered defaulted and transferred to Stage 3 if the issuers have failed to pay either interest or principal.

Scenarios and forward-looking inputs

The Group uses reasonable and supportable information, including forward-looking information, in the calculation of ECLs. ECLs are the unbiased probability-weighted credit losses determined by evaluating a range of possible outcomes and considering future economic conditions. ECLs are calculated for three macroeconomic scenarios, baseline, pessimistic and optimistic and the output is the weighted average ECL based on the assigned probability of each scenario.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Key impairment concepts (continued)

Scenarios and forward-looking inputs (continued)

Macroeconomic scenarios impact both the probability of default (PD) and the loss given default (LGD). Specifically, forward looking information is embedded in the PDs based on regression equations derived on the basis of historical data. Forward looking information embedded in the PDs relates to GDP growth, unemployment rates, industrial production, commercial price indices and residential price indices. This process involves consideration of external actual and forecast information from Moody's Analytics.

In regards to the LGD, the forward looking information is incorporated via the property indices for the types of properties (residential and commercial).

The table below indicates the most significant macroeconomic variables as well as the scenarios used by the Group.

Year	Scenario	Weight	Real GDP (% change)	Unemployment rate (% of labour force)	Industrial production (%)	Residential Price Index (average change %)	Commercial Price Index (average change %)
2018	Baseline	50%	3,02%	9,37%	7,23%	3,00%	3,10%
	Optimistic	20%	3,46%	9,22%	7,65%	3,34%	3,44%
	Pessimistic	30%	1,76%	10,11%	5,99%	0,00%	0,00%
2019	Baseline	50%	1,89%	8,99%	2,80%	3,50%	3,00%
	Optimistic	20%	3,14%	8,48%	3,97%	5,30%	4,80%
	Pessimistic	30%	-4,09%	12,74%	-2,83%	-1,48%	-1,98%
2020	Baseline	50%	1,41%	8,56%	1,61%	3,50%	3,00%
	Optimistic	20%	1,83%	8,08%	2,01%	4,83%	4,33%
	Pessimistic	30%	0,51%	14,06%	0,76%	-0,64%	-1,14%
2021	Baseline	50%	1,51%	8,19%	1,50%	2,00%	2,00%
	Optimistic	20%	1,64%	7,73%	1,62%	2,00%	2,00%
	Pessimistic	30%	2,80%	13,22%	2,72%	0,00%	0,00%
2022	Baseline	50%	1,61%	7,82%	1,57%	2,00%	2,00%
	Optimistic	20%	1,65%	7,35%	1,61%	2,00%	2,00%
	Pessimistic	30%	3,23%	11,88%	3,08%	0,00%	0,00%

Predicted relationships between the key indicators and default and loss rates on the portfolios of financial assets have been developed based on an analysis of historical data over the past 6 years.

Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market at the reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Key impairment concepts (continued)

Inputs into measurement of ECLs

The key inputs into the measurement of ECLs are the term structures of the following variables:

- PD;
- loss given default (LGD); and
- exposure at default (EAD).

These parameters are derived from statistical models and other historical data. They are adjusted to reflect forward-looking information.

PD represents the probability an exposure has to default and is calculated based on statistical rating models calculated per segment level and taking into consideration each individual's exposure rating and forward looking information based on macroeconomic inputs.

LGD is an estimate of the loss from a transaction given that a default occurs. Lifetime LGDs are defined as a collection of LGD estimates applicable to different future periods.

The structure of the LGD model incorporates the following:

- Curing: the probability of cure model was derived based on historical observations

EAD represents the expected exposure in the event of a default during the life of a financial instrument. EAD methodology is differentiated in the following categories: revolving and non-revolving exposures. In case of revolving exposures all future EAD changes are recognised by a credit conversion factor parameter. The credit conversion factor model is derived based on historical data from the last 6 years. For non-revolving exposures the term is based on the contractual term of the exposure and both on-balance sheet and off-balance sheet exposures are amortised in accordance with the principal contractual payment schedule of each exposure. In regards to the credit-impaired exposures, the EAD is equal to the on balance sheet amount as at the reporting date. ECL is discounted at the effective interest rate at initial recognition or an approximation thereof.

ECL measurement period

The period for which lifetime losses are determined is based on the contractual life of a financial instrument. For revolving loans, the period for which lifetime losses are determined is set at 12 months representing the next review date of the facility, at which the Group has the right to limit or to cancel the exposure.

Financial guarantees, letters of credit and undrawn loan commitments

The Group issues financial guarantees to its customers, consisting of letters of credit, letters of guarantee and undrawn loan commitments which are recognised at the issued amount in off balance sheet assets and liabilities. From 1 January 2018 these contracts are in scope of the ECL requirements. Corresponding ECL are presented within 'Other liabilities' on the Group's balance sheet except in the case of loan commitments where ECL on the loan commitment is recognised together with the loss allowance of the relevant on balance sheet exposure as the Group cannot separately identify the ECL on the loan commitment from those on the on balance sheet exposure component.

ECL relating to these other loan commitments is recorded in 'Credit losses to cover credit risk on loans and advances to customers ' in the interim consolidated income statement.

When a customer draws on a commitment, the resulting loan is presented within loans and advances to customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards and interpretations (continued)

IFRS 9 "Financial Instruments" (continued)

Interest income and similar income

Interest income is recognised in the consolidated income statement by applying the effective interest rate (EIR) to the gross carrying amount of financial asset other than credit-impaired assets.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on the gross carrying amount.

For purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the net amortised cost of the financial asset.

Interest income from financial assets at amortised cost, financial assets at FVOCI is presented separately within the caption ‘interest income’.

Interest income from financial assets at FVTPL is presented within the caption ‘interest similar to interest income’.

Interest expense

The Group holds loans and advances to banks and central banks with negative interest rates. Interest expenses relating to these other assets is recorded in ‘Interest expense’ in the consolidated income statement.

Reclassification of financial assets and liabilities

The Group does not reclassify its financial assets subsequent to their initial recognition apart from exceptional circumstances in which the Group acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Write off

The Group reduces the gross carrying amount of a financial asset when there is no reasonable expectation of recovering it. In such case, financial assets are written off either partially or in full.

Write off refers to both contractual and non-contractual write offs.

IFRS 15 "Revenue from Contracts with Customers"

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which is effective for annual periods beginning on or after 1 January 2018. In April 2016, the IASB issued clarifying amendments to IFRS 15 which provide additional application guidance but did not change the underlying principles of the standard. The standard was endorsed by the EU in September 2016. IFRS 15, which replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", provides a principles based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The recognition of such revenue is in accordance with five steps to: 1) identifying the contract with the customer; 2) identifying each of the performance obligations included in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognising revenue as each performance obligation is satisfied. The adoption of this Standard did not have an impact on the retained earnings of the Group.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

3. GOING CONCERN

The Board of Directors and Management have made an assessment of the Group's ability to continue as a going concern.

The conditions that existed during the six month period ended 30 June 2018 and the developments up to the date of approval of these Interim Condensed Consolidated Financial Statements that have been considered in the going concern assessment include, amongst others, the operating environment in Cyprus and the financial performance of the Group.

The Board of Directors and Management, taking into consideration the factors described below, are satisfied that the Group has the resources to continue in business for the foreseeable future and, therefore, that the going concern principle is appropriate:

- The Bank maintains healthy liquidity levels, with a liquidity coverage ratio as at 30 June 2018 of 326%, well in excess of the regulatory minimum of 100%;
- The Bank maintains a capital adequacy ratio as at 30 June 2018 of 15,2%, well in excess of the regulatory minimum;
- The Bank exhibits improving profitability, with a return to profit in 2017 and in the six months ended 30 June 2018;
- The Bank exhibits a high level of provision coverage of Non-Performing Exposures (NPEs) which has risen to 55,8% (compared to 51,7% at 31 December 2017), whilst NPE balances decreased by 1, 1% during 2018.
- The acquisition of USB's business will improve AstroBank's share in the Cyprus market enabling the achievement of synergies and economies of scale. Following completion, total assets are expected to reach €2 billion, gross loans at €1,2 billion, customer deposits €1,9 billion and equity €160 million;
- Reflecting improving government finances, the progress achieved in the banking sector and benign macroeconomic conditions, the Cypriot sovereign has benefited from a series of upgrades. Most recently, in September 2018, S&P Global Ratings upgraded Cyprus' sovereign back to investment grade, followed in October 2018 by Fitch.

4. OPERATING ENVIRONMENT

I. Cyprus

The recovery of Cyprus since 2014 is gaining momentum and the medium-term outlook remains favourable, driven by improving macroeconomic conditions, falling unemployment and broadening investments. At the same time, the Cypriot economy continues to face challenges primarily in relation to high public indebtedness and a high level of NPEs.

Real GDP (Gross Domestic Product) increased by 3,9% in 2017 and by 4,0% in the first half of 2018 year-on-year and seasonally adjusted (Cyprus Statistical Service, CSS). The main drivers of the growth were tourism, business services and increasing construction activity. On the expenditure side, growth is driven by domestic demand, namely private consumption and fixed investment. Net exports continued to make a negative contribution to growth since imports increased faster than exports.

Tourist arrivals increased by 14,6% in 2017 and continued to increase in 2018, up by 9,6% year-on-year in the first seven months (CSS). The unemployment rate dropped to 11,0% on average in 2017 and further to 9,4% in the first quarter and to 8,4% in the second quarter of 2018, seasonally adjusted, the latter based on monthly estimates (Eurostat). Average consumer inflation was marginally positive at 0,5% in 2017 after four consecutive years of deflation and continued to rise in 2018, up by 0,6% in the first seven months of the year (CSS), driven by housing and transport costs.

GDP growth is expected to average about 4,0% per annum in 2018-2019 according to the IMF (Country Report, June 2018). The outlook over the medium-term reflects positive underlying dynamics in relation to both public and private debt and improved conditions for the reduction of the high level of non-performing exposures aided by recent legislation improving the foreclosure and insolvency framework and facilitating the sale of non-performing exposures.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

4. OPERATING ENVIRONMENT (continued)

I. Cyprus (continued)

In public finance, the budget surplus increased steeply to 1,8% of GDP in 2017 (CSS) and is expected to remain substantial in 2018-2019 also averaging around 2,1% of GDP, according to the IMF and the European Commission (IMF country report June 2018; European Commission post programme surveillance report, Spring 2018). The debt-to-GDP ratio dropped to 97,5% in 2017 and is expected to increase to about 106,0% in 2018 due to the Cyprus Government's (the Government) capital injection into the Cyprus Cooperative Bank (CyCB) (European Commission, post programme surveillance report, Spring 2018). However, it is expected that this will be a one-off increase that will not affect the underlying debt dynamics in any significant way. While total interest costs will increase as a result of the new bonds issued for the CyCB, it is expected that debt will remain affordable. In 2017, the primary surplus reached 5,0% of GDP where interest payments were 3,2% of GDP (CSS) or 8,0% of revenues, compared with 10,4% of revenues in 2013. Strong GDP growth and substantial budget surpluses will allow the debt-to-GDP ratio to drop again to near 100% in 2019 (European Commission).

In April 2018, in order to facilitate the sale of the Cyprus Cooperative Bank (CyCB), the Government issued Bonds by Private Placement for a total nominal amount of €2,35 billion maturing between 15 to 20 years (Public Debt Management Office, Newsletter, May 2018). The proceeds of the bond issuance and additional funds were deposited at the State account held at CyCB, for a total of €2,5 billion. Subsequently the Government proceeded with an additional domestic issuance so that the total government bonds issued for the sale of CyCB reached €3,19 billion (total net effect on government debt, per Moody's Investors Service, Credit Opinion, 27 July 2018). The bonds issued in April were exchanged with new bonds maturing between 2018 and 2022, while the cash placement reached €351m. Against the State's total deposit of €3,54 billion with CyCB, CyCB pledged assets comprising NPEs, as well as other non-core assets with a total nominal value of €8,34 billion (Public Debt Management Office, Newsletter, July 2018).

In parallel, the Cyprus Parliament passed amendments to the legislation that strengthens the foreclosure, tax and insolvency laws and facilitates the sale of NPEs (Sale of Loans Law), as well as introduced the Securitisation Law, all of which came into effect in July 2018. Also in July, the Government proposed ESTIA, a Scheme that aims to address NPEs backed by primary residence. The eligibility criteria of the Scheme aim to protect socially vulnerable borrowers and it is expected to act as a deterrent and enabler against debts of strategic defaulters.

In the context of a strengthening economy and improving macroeconomic conditions, the Cypriot sovereign has benefited from a series of upgrades. Most recently in September 2018, S&P Global Ratings upgraded Cyprus' sovereign back to investment grade after rating it junk, followed in October by Fitch. The upgrade and stable outlook reflect the ongoing recovery and favourable developments in the banking system where the resolution of the Cyprus Cooperative Bank (CyCB) through the sale of its healthy assets and liabilities, reduced systemic risks emanating from the banking sector.

II. The Group

Regulatory capital ratios

On 30 June 2018, the Bank maintained a Core Equity Tier 1 (CET1) and total capital adequacy ratio at 15,2%.

The Group has elected to apply the EU transitional arrangements for regulatory capital purposes (EU Regulation 2017/2395) where the impact on the impairment amount from the initial application of IFRS 9 on the capital ratios will be phased-in gradually. The amount that will be added each year will decrease based on a weighting factor until the impact of IFRS 9 is fully absorbed at the end of the five years.

Asset quality

Non-Performing exposures (NPEs) were decreased by €4.667.156 (1,1% decrease) during the six-month period ended 30 June 2018 to €401.764.273 (31 December 2017: €406.431.430), representing 53,8% of gross loans. The provision coverage ratio of NPEs, stood at 55,8% at 30 June 2018, compared to 51,7% at 31 December 2017.

The Group addresses the asset quality challenge through the operation of the Recoveries Banking Unit which is actively seeking to find innovative solutions to manage distressed exposures.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the interim condensed consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent obligations and liabilities at balance sheet date and the reported amounts of income and expenses during the period/ year of reporting. Despite the fact that these assumptions are based on the best possible knowledge of the Group's Management and the Board of Directors regarding current conditions and activities, actual results may eventually differ from those estimates.

Accounting estimates and judgments are reviewed and evaluated on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The assessment of these factors determine the basis under which judgement is being applied in connection with accounting principles affecting the value of assets and liabilities which are not immediately apparent from other sources.

Critical accounting estimates and assumptions

a) Classification of loans and advances to customers

The Group exercises judgement upon determining the classification of loans and advances to customers, which relate to business models and future cash flows.

Judgement is also required to determine the appropriate level at which the assessment of business models needs to be performed. Further, the Group exercises judgement in determining the effect of sales of financial instruments on its business model assessment.

The Group also applies judgement upon considering whether contractual features including interest rate could significantly affect future cash flows.

b) Calculation of expected credit losses

The calculation of ECL requires management to apply significant judgement and make estimates and assumptions. Changes to these estimates and assumptions can result in significant changes to the timing and amount of ECL to be recognised. The Group's calculations are outputs of models, of underlying assumptions on the choice of variable inputs and their interdependencies. Elements of ECL models that are considered accounting judgements and estimates include:

Significant credit risk increase for loans and advances to customers

IFRS 9 does not include a definition of significant increase in credit risk. The Group assesses whether significant increase in credit risk has occurred since initial recognition using staging criteria and qualitative information in certain cases. The determination of the relevant thresholds to determine whether the significant increase in credit risk has occurred, involves management judgement. The relevant thresholds are set, monitored and updated by the Finance Division of the Group and endorsed by the Group Provisioning Committee.

Scenarios and macroeconomic factors

The Group determines the ECL, which is a probability-weighted amount by evaluating a range of possible outcomes. Management uses forward-looking scenarios and assesses the suitability of weights used. These are based on Management's assumptions taking into account macroeconomic, market and other factors. Changes in these assumptions and in the external factors could significantly impact ECL. Qualitative adjustments or overlays are occasionally made when inputs calculated do not capture all the characteristics of the market. These are reviewed and adjusted if considered necessary by the Finance Division and endorsed by the Group Provisioning Committee.

The Group uses three different economic scenarios. For Stage 3 customers, the calculation of individually assessed provisions is the weighted average of three scenarios; base (50% weight), pessimistic (30% weight) and optimistic (20% weight). Under the pessimistic scenario operational cash flows are decreased by 70%, applied haircuts on real estate collateral are increased by 10%, the timing of recovery of collaterals is increased by 1 year and the selling costs are increased by 1%. Under the optimistic scenario operational cash flows are increased by 35%, applied haircuts are decreased by 5%, the timing of recovery of collaterals is decreased by 1 year and the selling costs are

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

b) Calculation of expected credit losses (continued)

Scenarios and macroeconomic factors (continued)

decreased by 1%. Under the base scenario, selling costs are assumed to be on average 4% of the recoverable amount of real estate collaterals and are additional to the liquidation haircuts applied to collateral values.

The open market values of real estate collaterals are indexed from the valuation report date to the impairment test reference date, using the latest available published property price indices (CBC index for houses, apartments and land, RICS indices for commercial properties and shops). For all real estate collaterals, liquidation haircuts of 2%-25% (depending on the location, property type (urban or rural) and liquidation method of each collateral) were applied to the indexed open market values (31 December 2017: 2% to 25%).

Assessment of loss given default

A factor for the estimation of LGD is the timing and net recoverable amount from repossession or realisation of collaterals which mainly comprise real estate assets.

Assumptions have been made about the future changes in property values, as well as the timing for the realisation of collateral, taxes and expenses on the repossession and subsequent sale of the collateral as well as any other applicable haircuts. Indexation has been used to estimate updated market values of properties, while assumptions were made on the basis of a macroeconomic scenario for future changes in property values.

The timing of recovery of real estate collaterals used in the collectively assessed provisions calculation for loans and advances to customers is 6 years.

For the calculation of individually assessed provisions, the timing of recovery of collaterals as well as the haircuts used are based on the specific facts and circumstances of each case. Judgement may also be exercised over staging during the individual assessment.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes in the amount of required credit losses on loans and advances.

Modelling adjustments

Forward looking models have been developed for ECL parameters (PD and LGD) for all portfolios sharing similar characteristics. Governance of these models lies with the Risk Management Division and the Finance Division.

ECL allowances also include off-balance sheet credit exposures represented by guarantees given and by irrevocable commitments to disburse funds. Off-balance sheet credit exposures of the individually assessed assets require assumptions on the timing and amount of cash outflows. For the collectively assessed off-balance sheet credit exposures, the allowance for provisions is calculated based on the relevant ECL model.

c) Fair value of bonds, shares and other financial instruments

The best evidence of fair value is a quoted price in an actively traded market. The fair value of bonds, shares and other financial instruments that are not traded in an active market is determined by using valuation techniques. The majority of valuation techniques employed by the Group use only observable market data and so the reliability of the fair value measurement is relatively high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant inputs that are not observable. Valuation techniques that rely on non-observable inputs require a higher level of management judgement to calculate a fair value than those based wholly on observable inputs. Changes in these estimates and assumptions could affect the fair value of the relevant financial instruments.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

d) Deferred tax asset

Deferred tax assets are recognised by the Group in respect of tax losses to the extent that is probable that future taxable profits will be available against which the losses can be utilised. Judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies. These variables have been established on the basis of significant management judgement and are subject to uncertainty. It is possible that the actual future events could be different from the assumptions made resulting in a material adjustment to the carrying amount of deferred tax assets.

e) Income taxes

Significant estimates are required in determining the provision for income tax. For specific transactions and calculations the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes may become due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the current tax and deferred tax provisions in the affected period.

f) Fair value of building held for own use and investment properties

The Group's accounting policy for property held for own use requires that it is measured at fair value every year end. Valuations are carried out by independent qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

The Group's accounting policy for investment property requires that it is measured at fair value each reporting date. Valuations are carried out by independent qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

For the preparation of these interim condensed consolidated financial statements valuations have been performed by internal or external qualified valuers by applying valuation models recommended by the Royal Institution of Chartered Surveyors and the International Valuation Standards Council.

In arriving at their estimates of the fair values of properties, the valuers use their market knowledge and professional judgement and do not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which would have existed in a more active market. Depending on the nature of the underlying asset and available market information, the determination of the fair value of property may require the use of estimates such as future cash flows from assets and discount rates applicable to those assets. All these estimates are based on local market conditions existing at the reporting date and require significant amount of judgement.

Change in accounting estimates

On 1 January 2018, the Group changed the annual depreciation rate for leasehold improvements from 3% to 10%. As a result of this change, additional depreciation of €85.718 was recognised on leasehold improvements during the six month period ended 30 June 2018. The effect of the change in accounting estimate is expected to be the same in future periods, up until the leasehold improvements are fully depreciated.

Classification of investment properties

Significant judgement is exercised so as to conclude to the classification of the assets acquired in debt satisfaction. The Bank has classified these assets as investment properties as they comprise land and buildings that are not occupied for use by, or in the operations of, the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and capital appreciation.

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

6. TRANSITION DISCLOSURES

6.1 Transitional Consolidated Balance sheet on adoption of IFRS 9

	IAS 39 carrying amount 31 December 2017	Re-classifications and re-measurements	IFRS 9 carrying amount 1 January 2018
	€	€	€
Assets			
Cash and balances with Central Banks	326.932.139		326.932.139
Placements with other banks	51.629.291		51.629.291
Loans and advances to customers	513.519.525	(5.810.621)	507.708.904
Available for sale financial assets	226.859.009	(226.859.009)	N/A
Financial assets at amortised cost		64.586.483	64.586.483
Financial assets at fair value through other comprehensive income		156.101.760	156.101.760
Financial assets at fair value through profit or loss	28.035.336	5.956.219	33.991.555
Derivative financial instruments	32.267		32.267
Property, plant and equipment	24.085.092		24.085.092
Intangible assets	935.780		935.780
Investment properties	64.730.039		64.730.039
Deferred tax assets	5.716.155		5.716.155
Other assets	2.666.421		2.666.421
Total assets	**1.245.141.054**	**(6.025.168)**	**1.239.115.886**
Liabilities			
Amounts due to other banks and deposits from banks	2.480.674		2.480.674
Deposits from customers	1.103.199.997		1.103.199.997
Derivative financial instruments	470.110		470.110
Current tax liability	91.491		91.491
Deferred tax liabilities	887.501		887.501
Other liabilities	21.813.798	212.149	22.025.947
Total liabilities	**1.128.943.571**	**212.149**	**1.129.155.720**
Equity			
Share Capital	14.113.487		14.113.487
Share premium	88.554.704		88.554.704
Revaluation and other reserves	8.408.033	446.951	8.854.984
Retained earnings/ (Accumulated losses)	5.121.259	(6.684.268)	(1.1563.009)
Total equity attributable to the owners of the Parent Bank	**116.197.483**	**(6.237.317)**	**109.960.166**
Total equity	**116.197.483**	**(6.237.317)**	**109.960.166**
Total equity and liabilities	**1.245.141.054**	**(6.025.168)**	**1.239.115.886**

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

6. TRANSITION DISCLOSURES

6.1 Transitional Consolidated Balance sheet on adoption of IFRS 9 (continued)

The classification and measurement and impairment requirements of IFRS 9 were applied retrospectively by adjusting the opening balance sheet at the date of the initial adoption. As permitted by IFRS 9 the Group has not restated comparative periods. The impact on the adoption date, 1 January 2018, was therefore recognised through the consolidated statement of changes in equity.

6.2 Classification and measurement of financial instruments

On adoption of the standard on 1 January 2018, the impact of the changes related to the classification and measurement of financial assets held as at 1 January 2018 (excluding impairment allowance) is €109K and is analysed as follows:

	Classification under IAS 39	Carrying amount IAS 39	New classification under IFRS 9	New carrying amount IFRS 9 (before ECLs)
Financial assets		€		€
Cash and balances with Central Banks	Loans and receivables	326.932.139	Amortised cost	326.932.139
Placements with other banks	Loans and receivables	51.629.291	Amortised cost	51.629.291
Loans and advances to customers	Loans and receivables	513.519.525	Amortised cost	513.519.525
Debt securities	Available for sale	214.654.860	FVTOCI	149.853.830
Debt securities	Available for sale	-	Amortised cost	64.910.338
Debt securities	Trading (FVTPL)	15.810.292	FVTPL	15.810.292
Equity securities	Available for sale	12.204.149	FVTOCI	6.247.930
Equity securities	Available for sale	-	FVTPL	5.956.219
Derivatives	FVTPL	32.267	FVTPL	32.267
Financial liabilities				
Other liabilities	Amortised cost	21.813.798	Amortised cost	21.813.798

6. TRANSITION DISCLOSURES (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9

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

	IAS 39 carrying amount 31 December 2017	Re-classifications	Re- measurements		IFRS 9 carrying amount 1 January 2018
			ECL	Other	
	€	€	€	€	€
Financial assets					
Amortised cost under IFRS 9					
Loans and advances to customers					
Carrying amount under IAS 39	513.519.525				
Re- measurement: ECL allowance			(5.810.621)		
Carrying amount under IFRS 9					507.708.904
Investments (debt instruments)					
Carrying amount under IAS 39	-				
Re – classification: from available-for- sale (note 2)		64.801.030			
Re- measurement: other				109.308	
Re- measurement: ECL allowance			(323.855)		
Carrying amount under IFRS 9					64.586.483
Total financial assets measured at amortised cost	**513.519.525**	**64.801.030**	**(6.134.476)**	**109.308**	**572.295.387**
Fair value through other comprehensive income (FVTOCI) under IFRS 9					
Investments (debt instruments)					
Carrying amount under IAS 39	-				
Re – classification: from available-for- sale (note 3)		149.853.830			
Carrying amount under IFRS 9					149.853.830
Investments (equity instruments)					
Carrying amount under IAS 39					
Re – classification: from available-for- sale (note 4)		6.247.930			
Carrying amount under IFRS 9					6.247.930
Total financial assets measured FVTOCI	**-**	**156.101.760**	**-**	**-**	**156.101.760**
Fair value through profit or loss (FVTPL) under IFRS 9					
Carrying amount under IAS 39	28.035.336				
Re – classification: from available-for- sale (note 5)		5.956.219			
Carrying amount under IFRS 9					33.991.555
Total financial assets measured FVTPL	**28.035.336**	**5.956.219**	**-**	**-**	**33.991.555**
Investments – Available –for- sale financial assets					
Carrying amount under IAS 39	226.859.009				
Re – classification: to amortised cost		(64.801.030)			
Re – classification: to FVTOCI		(156.101.760)			
Re – classification: to FVTPL		(5.956.219)			
Carrying amount under IFRS 9					N/A
	226.859.009	**(226.859.009)**	**-**	**-**	**-**

6. TRANSITION DISCLOSURES (continued)

6.3 Reconciliation of balance sheet amounts from IAS 39 to IFRS 9 (continued)

	IAS 39 carrying amount 31 December 2017	Re- classifications	Re- measurements		IFRS 9 carrying amount 1 January 2018
			ECL	Other	
	€	€	€	€	€
Financial liabilities					
Amortised cost under IFRS 9					
Other liabilties					
Carrying amount under IAS 39	21.813.798				
Re- measurement: ECL allowance			212.149		
Carrying amount under IFRS 9					22.025.947
Total financial assets measured at amortised cost	**21.813.798**	**-**	**212.149**	**-**	**22.025.947**

1. All loans and advances to customers are held under held to collect business model and meet the SPPI criteria and therefore are carried at amortised cost under IFRS 9.

2. The Group holds debt instruments of €64.801.030 which were classified as available for sale under IAS 39. As of 1 January 2018, these debt instruments are managed within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Accordingly, since these instruments meet the SPPI criteria, the Group classified these investments as debt instruments measured at amortised cost.

3. The Group holds debt instruments of €149.853.830 which were classified as available for sale under IAS 39. As of 1 January 2018, part of these debt instruments are managed within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling financial assets and have therefore been classified at fair value through other comprehensive income.

4. The Group has made an irrevocable election to classify its equity investments of a carrying value of €6.247.930 that were classified as available-for-sale under IAS 39 as equity instruments at FVOCI on transition to IFRS 9.

5. The Group holds equity investments of a carrying value of €5.956.219 that were classified as available-for-sale under IAS 39. As of 1 January 2018, these equity investments are measured at fair value through profit or loss.

6. The Group did not voluntarily designate any loans previously measured at amortised cost as financial assets at fair value through profit or loss.

6.4 Impact on transition to IFRS 9 fair value reserve and retained earnings

The impact on transition to IFRS 9 on financial instruments fair value reserve and accumulated losses is as follows:

	Retained earnings	Fair value reserve
	€	€
Balance under IAS 39	5.121.259	8.408.033
Recognition of IFRS 9 ECL	(6.684.268)	337.643
Debt instruments from available- for–sale to amortised cost	-	109.308
Restated balance at 1 January 2018	**(1.563.009)**	**8.854.984**

6. TRANSITION DISCLOSURES (continued)

6.5 Reconciliation of impairment allowance balance from IAS 39 to ECL allowance balance of IFRS 9

The following table reconciles the opening provisions under IAS 39 and IAS 37 to the ECL allowances under IFRS 9.

	Provision under IAS 39/ Provision under IAS 37	Re-measurement	ECLs under IFRS 9 at 1 January 2018
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)	€	€	€
Loans and advances to customers	210.093.289	5.810.621	215.903.910
Investments (debt securities) – amortised cost	-	329.290	329.290
	210.093.289	**6.139.911**	**216.233.200**
Available- for- sale (IAS 39)/ Financial assets at FVTOCI (IFRS 9)	€	€	€
Investments (debt securities)	-	337.643	337.643
	-	**337.643**	**337.643**
Provisions for financial guarantees and commitments	€	€	€
Financial guarantees	447.493	212.233	659.726
Other commitments	140	(84)	56
	447.633	**212.149**	**659.782**
Total	**210.540.922**	**6.689.703**	**217.230.625**

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

7. NET INTEREST AND OTHER SIMILAR INCOME

	30 June 2018 €	30 June 2017 €
Interest income		
Interest on loans and other advances to customers	7.065.280	7.980.731
Interest on impaired loans and advances to customers	4.436.192	5.721.275
Interest on debt securities at amortised cost	1.150.481	1.101.475
Interest on financial assets at fair value through other comprehensive income	-	(17.971)
Other interest income	100	2.471
Total interest income	**12.652.053**	**14.787.981**
Interest similar to interest income		
Interest on debt securities financial assets at fair value through profit or loss	60.743	-
Interest on swap transactions	656.807	929.286
Total Interest similar to interest income	**717.550**	**929.286**
Interest on deposits from customers	2.936.161	4.647.350
Interest due to other banks	43.482	6.538
Interest on placements with Central Bank and other banks	320.324	453.166
Total interest expense	**3.299.967**	**5.107.054**
Net interest income	**10.069.636**	**10.610.213**

8. NET FEE AND COMMISSION INCOME

	30 June 2018 €	30 June 2017 €
Fees and commissions from banking operations	6.175.462	5.420.203
Other fees and commissions from private banking asset management	101.860	141.715
Total fee and commission income	**6.277.322**	**5.561.918**
Fees and commissions from banking operations	965.466	943.010
Other fees and commissions from private banking asset management	61.831	37.749
Total fee and commission expense	**1.027.297**	**980.759**
Net fee and commission income	**5.250.025**	**4.581.159**

9. OTHER INCOME

	30 June 2018 €	30 June 2017 €
Dividend from equity investments	739.661	720.196
Profit/ (loss) from disposal of investment properties	103.717	(1.400)
Other income	34.872	12.496
Total	**878.250**	**731.292**

10. NET GAINS ON FINANCIAL INSTRUMENT TRANSACTIONS

	30 June 2018 €	30 June 2017 €
Gain from foreign exchange	622.789	772.437
(Loss)/ Gain from disposal of financial assets at fair value through profit or loss	(49.314)	332.642
Gain on disposal of debt securities	7.726.994	933.614
Fair value loss on revaluation of derivative on equity shares	(677.705)	-
Fair value gain on revaluation of financial assets at fair value through profit or loss	677.705	-
	8.300.469	**2.038.693**

11. STAFF EXPENSES AND OTHER OPERARTING EXPENSES

Staff expenses

	30 June 2018 €	30 June 2017 €
Salaries and employer's contributions	8.385.115	7.758.661
Social Insurance contributions	499.091	474.167
Retirement benefit cost for defined contributions plans	563.898	547.112
Voluntary redundancy costs	2.053.050	-
Other staff expenses	78.982	33.530
Total	**11.580.136**	**8.813.470**
Average number of employees	*376*	*359*

In January 2018 the Group proceeded with voluntary exit plans for its employees, the cost of which is included in staff costs and amounted to €2.053.050 (16 employees).

Operating expenses

	30 June 2018 €	30 June 2017 €
Sales and marketing expenses	249.464	496.317
Legal expenses and other consultancy fees	1.244.889	1.103.783
Auditors' fees of the financial statements of the Group and its subsidiaries	99.484	65.170
Buildings and other assets' maintenance cost	1.043.154	764.910
Operating lease rentals	409.759	361.204
Travelling expenses	178.359	211.133
Printing and stationery	151.256	151.514
Telecommunication expenses	158.944	147.332
Special levy	849.832	824.822
Other operating expenses	1.064.194	964.820
Total	**5.449.335**	**5.091.005**

12. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

	30 June 2018 €	30 June 2017 €
Reversal of / (provision) for expected credit loss to cover credit risk on loans and advances to customers	24.041	(1.236.151)
(Provision for)/ reversal of expected credit loss to cover credit risk on contractual commitments and guarantees	(452.849)	252.846
Expected credit losses on debt securities	336.570	N/A
Recoveries of loans and advances to customers previously written off	15.427	-
	(76.811)	**(983.305)**

13. INCOME TAX

	30 June 2018 €	30 June 2017 €
Current Tax	-	9.775
Deferred tax	580.604	200.000
	580.604	**209.775**

14. CASH AND BALANCES WITH CENTRAL BANK

	30 June 2018 €	31 December 2017 €
Cash	12.995.267	9.730.468
Mandatory deposits with the Central Bank of Cyprus	5.586.486	10.096.191
Other balances with the Central Bank of Cyprus	366.995.923	304.996.611
Cheques to be cleared	4.046.797	2.108.869
Total	**389.624.473**	**326.932.139**

15. PLACEMENTS WITH OTHER BANKS

	30 June 2018 €	31 December 2017 €
Current accounts	26.513.201	24.818.508
Placements with other banks	46.011.043	26.810.783
Total	**72.524.244**	**51.629.291**

The following table presents the placements with other banks categorised according to their credit rating as per Moody's, the international credit rating agency, as at 30 June 2018 (apart from (i) which was categorised as per Capital Intelligence Agency, (ii) and (iii) which were categorised as per Standard and Poor's) and 31 December 2017.

15. PLACEMENTS WITH OTHER BANKS (continued)

	30 June 2018 €	31December 2017 €
Credit rating Aaa	-	997.011
Credit rating Aa2 (iii)	800.623	-
Credit rating A1	10.820.297	46.212.423
Credit rating A2	-	531.371
Credit rating A3	1.506.368	-
Credit rating Baa1	35.865.538	-
Credit rating Baa2	-	30.000
Credit rating Baa3 (ii)	11.762.305	-
Credit rating Ba1	125.611	418.681
Credit rating BB+ (i)	10.001.597	1.408.700
Credit rating Caa1	-	999.889
Credit rating Caa2	999.944	-
Credit rating Caa3	641.961	1.031.216
	72.524.244	**51.629.291**

16. FINANCIAL ASSETS AT AMORTISED COST

	30 June 2018 €	31 December 2017 €
Securities classified at amortised cost		
Listed	261.803.859	N/A
12 month expected credit losses	(330.363)	N/A
	261.473.496	**N/A**

On 30 June 2018 , the debt securities at amortised cost mainly comprised of Cyprus Treasury Bills with maturity of less than 3 months (€30.007.631), Cyprus Government bonds with long term maturity (€57.733.767), Greek Treasury Bills with maturity of less than 3 months (€49.792.436), European sovereign bonds and corporate bonds with short and long term maturity (€123.939.662).

The following table presents investments in bond securities categorised according to their rating as per the international credit rating agency, Moody's, as at 30 June 2018 :

	30 June 2018 €
Investments in bond securities classified at amortised cost:	
Credit rating Aaa	50.744.467
Credit rating Aa2	4.979.956
Credit rating A2	-
Credit rating Baa3	30.253.096
Credit rating Ba1	31.546.940
Credit rating Ba2	5.015.480
Credit rating Ba3	87.741.397
Credit rating B3	49.792.436
Credit rating Caa1	1.399.724
Credit rating Caa2	-
	261.473.496

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

17. LOANS AND OTHER ADVANCES TO CUSTOMERS

	30 June 2018 €	31 December 2017 €
Advances to individuals	218.840.777	206.779.265
Advances to corporate entities:		
Large corporate entities and organisations	144.779.787	121.019.486
Small and medium size enterprises (SMEs)	383.750.663	395.814.063
Advances to customers – gross	**747.371.227**	**723.612.814**
Allowance for ECL/ Impairment losses	**(224.036.238)**	**(210.093.289)**
Advances to customers – net	**523.334.989**	**513.519.525**

The movement in provisions for impairment of loans and advances is as follows:

	Stage 1	Stage 2	Stage 3	POCI	Total
1 January 2018	2.889.053	346.489	171.696.585	35.161.162	210.093.289
Impact adopting IFRS 9 at 1 January 2018	896.527	658.584	3.778.471	477.055	5.810.637
Restated balance 1 January 2018	**3.785.580**	**1.005.073**	**175.475.056**	**35.638.217**	**215.903.926**
Interest not recognised in the income statement	8	5.935	6.788.906	1.440.951	8.235.800
Write-offs	-	-	(620.446)	-	(620.446)
Derecognition	(404.750)	(68.757)	(1.192.570)	(8.111)	(1.674.188)
Transfer to Stage 1	480.153	(412.660)	(67.493)	-	-
Transfer to Stage 2	(160.842)	481.442	(320.600)	-	-
Transfer to Stage 3	(19.074)	(97.728)	116.802	-	-
Change due to change in credit risk	685.974	68.279	748.609	147.285	1.650.147
Foreign exchange difference and other movement	3.599	3.829	533.571	-	540.999
30 June 2018	**4.370.648**	**985.413**	**181.461.835**	**37.218.342**	**224.036.238**
Individually assessed	**-**	**4.865**	**151.207.598**	**23.334.138**	**174.546.602**
Collectively assessed	**4.370.648**	**980.548**	**30.254.237**	**13.884.204**	**49.489.636**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	30 June 2018 €	31 December 2017 €
Securities classified at fair value though other comprehensive income		
Listed (i)	6.633.924	N/A
Unlisted	357.021	N/A
	6.990.945	**N/A**
Securities available for sale		
Listed (i)	N/A	226.567.298
Unlisted	N/A	291.711
	N/A	**226.859.009**

18. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

(i) The Group owns 19,91% of the share capital of Atlantic Insurance Company Limited (ATL). The Group's Management believes that the price of the share which is listed in the Cyprus Stock Exchange is not representative due to the low volume of transactions and therefore at 30 June 2018 valuated this investment using alternative valuation methods.

Under the 'Agreement for the Sale and Purchase of Shares in Piraeus Bank (Cyprus) Ltd' "the SPA", between Piraeus Bank S.A. and Holding M. Sehnaoui SAL (HMS) which was completed on 28 December 2016, Piraeus Bank S.A. (PBSA) is committed to either find, within 180 days after Completion, a buyer for at least 50% of the Group's shares in ATL (with further terms ensuring that the Group receives no less and no more than the book value per share as at 31 December 2015) or to make a payment to HMS of €4,499,998.44, whereupon HMS shall subscribe for and the Bank shall issue to HMS 1,209,677 new ordinary shares which HMS shall allocate to itself and the Subscribers pro rata to their respective shareholdings in the Bank at the time of Completion. The agreement was extended up to 31 December 2018.

It is considered that the agreement between HMS and PBSA carries a derivative which is recognised on the balance sheet indicating the difference between the fair value at each reporting date and the price set by the SPA.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 €	31 December 2017 €
Other investments at fair value through profit or loss (1)	11.606.988	12.225.044
Equity investments (3)	6.633.924	-
Trading debt securities (2)	582.932	15.810.292
	18.823.844	**28.035.336**
Movement :		
1 January 2018	28.035.336	11.859.747
Additions	6.221.305	15.810.292
Disposals	(21.970.269)	(341.760)
Transfers from available for sale	5.956.219	-
Changes in fair value	581.253	707.057
	18.823.844	**28.035.336**

(1) Other investments classified as "Financial assets at fair value through profit or loss" comprise of a financing arrangement relating to properties legally acquired by the Group after an agreement with a customer for the settlement of loans. Based on the transfer agreement, for a period of three years the customer has the right to repurchase any property at the initial price plus any cost to the Group up to the date of the repurchase. These financial assets have been classified as financial assets at fair value through profit or loss on initial recognition.

During the six-month period ended 30 June 2018, the Group disposed some of the properties obtained under the above agreement amounting to €618.056 (31 December 2017: €341.760) at a gain of €4.067 (H1 2017: €NIL) recognised in the interim condensed consolidated income statement.

Valuation of the property was performed by internal or external qualified valuers to determine the fair value as at 30 June 2018.

During the six month period ended 30 June 2018 and during the year ended 31 December 2017, there have been a limited number of similar sales in the local market and as a result, the Group adopted a valuation technique using unobservable inputs. Accordingly, the fair value measurement was classified to Level 3.

The comparison method was used in combination with the replacement cost method.

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

(2) Trading debt securities comprise of Cyprus government bonds and corporate bonds acquired principally for the purpose of selling or repurchasing them in the near term.

(3) Equity investments relate to 50% of the shares in Atlantic Insurance Company Limited (ATL) owned by the Group (9,955% of the share capital of ATL) over which Piraeus Bank S.A. is committed to either find a buyer or to make payment to HMS of €4,499,998.44 (refer to note 18).

Risk of fluctuations in property prices

On 30 June 2018, other financial assets at fair value through profit or loss are exposed to the risk of fluctuations in property prices. In case of a 5% decrease in the property prices as at 30 June 2018, equity would decrease by €580 thousand (31 December 2017: decrease by €611 thousand).

In case of an increase in the property prices, the positive effect on equity is limited by the provision of the relevant agreement with the customer, whereby under certain circumstances the client is allowed to benefit part of the realised profit in case of sale within a predetermined period.

Risk of fluctuations in bond prices

As at 30 June 2018 the trading debt securities are exposed to price fluctuations of bond instruments. A decrease/ increase in the market price of the bonds by 5% as at 31 December 2017 would result in a decrease/ increase in net equity by €29 thousand (2016: €791 thousand).

20. INVESTMENT PROPERTIES

	30 June 2018 €	31 December 2017 €
1 January	64.730.039	31.527.490
Additions	1.912.326	33.493.949
Disposals	(8.367.309)	(958.760)
Changes in fair value	-	667.360
Closing balance	**58.275.056**	**64.730.039**

During the six-month period ended 30 June 2018, the Group obtained property of a total amount of €1.940 thousand (31 December 2017: €33.494 thousand) after agreements with customers for settlement of their loans. Investment property comprises of land and buildings in different areas in Cyprus.

Fair value of investment property

Valuation of the property was performed by the Group by internal and external qualified valuers to determine the fair value as at 30 June 2018. The revaluation loss /gain was recognised in to the interim condensed consolidated income statement. The following table analyses the method of valuation of investment property carried at fair value. 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 priced included within Level 1 that are observable for the asset either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset that are not based on observable market data (that is unobservable inputs) (Level 3).

20. INVESTMENT PROPERTIES (continued)

	Fair value hierarchy at 30 June 2018 using:		
	(Level 1)	(Level 2)	(Level 3)
	€	€	€
Fair value measurements			
Investment property	-	-	58.275.056
	-	**-**	**58.275.056**

There were no transfers between levels during the period.

	Fair value hierarchy at 31 December 2017 using:		
	(Level 1)	(Level 2)	(Level 3)
	€	€	€
Fair value measurements			
Investment property	-	-	64.730.039
	-	**-**	**64.730.039**

There were no transfers between levels during the year.

During the six month period ended 30 June 2018 and during the year ended 31 December 2017, there have been a limited number of similar sales in the local market and as a result, the Group adopted a valuation technique using unobservable inputs. Accordingly, the fair value measurement was classified to Level 3.

The comparison method was used in combination with the replacement cost method.

Risk of changes in property prices

Risk relating to the prices of property held by the Group arises from possible negative fluctuations in the current property prices.

On 30 June 2018, investment property was exposed to the risk of changes in property prices. In case of a decrease/ increase of 15% in the market price as at 30 June 2018, the equity would decrease/ increase by €7.649 thousand (31 December 2017: €8.496 thousand).

Valuation processes of the Group

At each reporting date the group engages either external or internal qualified valuers to determine the fair value of the investment properties.

The Level 3 valuations of investment properties have been performed using the average of a sales comparison method and the construction and development method. The instability of the market and the lack of liquidity, factors affecting the demand and as a result the prices of the property, were taken into account in the valuation of investment properties.

Information on fair value measurements using significant unobservable inputs (Level 3)

20. INVESTMENT PROPERTIES (continued)

30 June 2018

Description	Fair value at 30 June 2018 €	Land surface in m²	Estimated fair value of land per m²	Building surface in m²	Estimated fair value of buildings per m²
Land with buildings Nicosia	13.593.750	357 - 7.311	25 - 773	150 – 1.600	9 – 2.866
Land with buildings Larnaca	10.187.522	35 – 26.069	12 - 1.343	143 – 1.292	324 – 3.750
Land with buildings Ayia Napa	12.250.000	20.722	350	4.035	1.238
Land with building Limassol	5.873.054	5.265- 100.001	5 – 300	3.482 – 6.511	164 – 211
Land with buildings Paphos	16.370.730	103 - 44.500	7-2.500	111- 15.700	232 – 2.900

Information on fair value measurements using significant unobservable inputs (Level 3) (continued)

31 December 2017

Description	Fair value at 31 December 2017 €	Land surface in m²	Estimated fair value of land per m²	Building surface in m²	Estimated fair value of buildings per m²
Land with buildings Nicosia	16.695.000	357- 16.324	€25 - €773	150 – 9.100	€9 - €2.061
Land with buildings Larnaca	10.284.000	35- 26.069	€12 - €1.343	143- 1.292	€324 - €3.750
Land with buildings Ayia Napa	12.250.000	20.722	€350	4.035	€1.238
Land with building Limassol	9.130.309	960- 100.001	€5 - €775	1.566-6.511	€164- €1.154
Land with buildings Paphos	16.370.730	103- 44.500	€7 - €2.500	111- 15.700	€232 - €2.900

Sensitivity analysis

All property valuations of the Group have been classified as Level 3. Significant increases/ decreases in the estimated values per square meter of property, valued based on the market comparison method could lead to significantly higher/lower fair values.

21. OTHER ASSETS

	30 June 2018 €	31 December 2017 €
Prepaid expenses	2.136.484	876.459
Other receivables	2.423.913	1.789.962
	4.560.397	**2.666.421**

22. DUE TO OTHER BANKS AND DEPOSITS FROM BANKS

	30 June 2018 €	31 December 2017 €
Analysis by geographical sector		
Cyprus	7.303.632	2.225.710
Greece	255.247	254.781
Other countries	-	183
	7.558.879	**2.480.674**

23. DEPOSITS AND OTHER CUSTOMER ACCOUNTS

by type of deposit

	30 June 2018 €	31 December 2017 €
Demand	657.057.600	545.709.642
Savings	87.614.392	63.881.993
Term	485.428.427	493.608.362
Total	**1.230.100.419**	**1.103.199.997**

by currency

	30 June 2018 €	31 December 2017 €
Euro	1.039.671.545	919.717.914
US Dollar	146.117.434	147.133.678
British Pound	26.028.468	29.004.903
Swiss Franc	640.941	199.475
Other	17.642.031	7.144.027
Total	**1.230.100.419**	**1.103.199.997**

by line of business

	30 June 2018 €	31 December 2017 €
Retail	619.756.446	560.881.327
Corporate	91.668.926	93.839.336
International banking services	474.250.077	404.044.252
Private banking	43.698.203	43.970.511
Recoveries banking unit	726.767	464.571
Total	**1.230.100.419**	**1.103.199.997**

23. DEPOSITS AND OTHER CUSTOMER ACCOUNTS (continued)

by geographical area

	30 June 2018 €	31 December 2017 €
Cyprus	944.768.617	804.358.516
Greece	107.664.294	109.852.843
British Virgin Islands	30.645.342	43.976.790
Russia	11.030.972	12.338.732
Other countries	135.991.194	132.673.116
Total	**1.230.100.419**	**1.103.199.997**

Deposits by geographical area are based on the originator country of deposits.

24. OTHER LIABILITIES

	30 June 2018 €	31 December 2017 €
Expenses payable	2.943.549	1.842.453
Outstanding customers banking transactions	12.291.780	17.047.829
Other liabilities	3.980.991	2.923.516
Total	**19.216.320**	**21.813.798**

25. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share Capital €	Share Premium €	Total €
1 January 2017	14.113.487	14.113.487	187.840.247	201.953.734
Share premium reduction (1)	-	-	(99.285.543)	(99.285.543)
31 December 2017	**14.113.487**	**14.113.487**	**88.554.704**	**102.668.191**
1 January 2018	14.113.487	14.113.487	88.554.704	102.668.191
30 June 2018	**14.113.487**	**14.113.487**	**88.554.704**	**102.668.191**

The share premium is not available for distribution to the shareholders in the form of dividend.

The issued share capital is fully paid. The authorised share capital of the Bank as at 30 June 2018 was €14.113.487.

(1) On 2 November 2017, the Board of Directors unanimously approved the reduction of the share premium of the Bank by €99.285.543 (representing the accumulated losses as per the stand alone financial statements of the Bank as at 31 December 2016) for the purpose of writing off the accumulated losses in an equivalent amount.

26. CONTINGENT LIABILITIES AND COMMITMENTS

Credit – related financial instruments

Credit-related financial instruments include commitments relating to credit guarantees and letters of guarantee, issued in order to meet the financial requirements of the Group's customers. The credit risk on these transactions corresponds to the total contract amount. However, the majority of these facilities are offset by corresponding commitments by third parties.

	30 June 2018 €	31 December 2017 €
Credit guarantees	243.256	79.300
Letters of guarantee	31.894.286	23.073.758
Total	**32.137.542**	**23.153.058**

As at 30 June 2018 letters of guarantee of €5.301.968 (31 December 2017: €12.364.398) had a maturity date beyond one year. The aggregate amount of credit guarantees had a maturity date within one year. The amounts are interest free and are presented at their book value since the effect of discounting is not significant.

Unutilised credit limits

Loan commitments/credit limits that have been approved but not yet utilised amount to €61.312.632 (31 December 2017: €58.116.359).

Operating lease commitments

The Group rents several branches, offices and storage facilities under operating leases, most of which can be cancelled upon notice. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under the non-cancelable operating leases are as follows:

	30 June 2018 €	31 December 2017 €
Up to one year	261.094	253.077
From one to five years	590.500	12.625
	851.594	**265.702**

Legal proceedings

As at 30 June 2018 and 31 December 2017 there were pending litigations against the Group in connection with its activities. Based on legal advice, the Board of Directors believes that there is adequate defense against all claims and that the said claims are considered unlikely to have any material adverse impact on the financial position of the Group.

Pending litigation and claims

Letters of guarantee

- Case relating to a letter of guarantee Issued by the Group in favor of another bank in Cyprus guaranteeing the issuance of title deeds, as a bridging security, for facilities granted to the beneficiary bank's customer. Title deeds were indeed issued and both the beneficiary bank and their borrower were repeatedly informed in writing about this and they were called upon to appear in the Land Registry to accept transfer and register a mortgage in favor of the beneficiary bank. Nevertheless both failed to do so and, instead the beneficiary chose to make a claim on the letter of guarantee.

26. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Pending litigation and claims (continued)

Letters of guarantee (continued)

- Case concerns a successful opposition by the Group to an Interim Order which was issued to freeze the payment of a letter of guarantee in favor of the Group. A separate action was filed by the Group against the principal debtors and guarantor for the sums owed by the debtors and by guarantor since the apartment sold had no title. The Plaintiffs filed the present action in order to prevent the guarantor bank from paying the letter of guarantee securing the issuance of title deeds which was given as security to the Bank for facilities granted to the customers/ buyers.

Employment litigation

- The plaintiff's employment was terminated by the Group following disciplinary proceedings against the plaintiff for wrongly disclosing confidential bank documents to a third party. The employee appealed unsuccessfully to the Appeals Committee against the judgment of the Disciplinary Committee ("DC") and the Appeals Committee upheld the judgment of the DC.

- The plaintiff claims damages for alleged unfair dismissal. There were two disciplinary proceedings at different times against the plaintiffs because the plaintiff was engaging in personal businesses during his working hours at the Bank and for divulging confidential information to third parties and or for abusing his position at the Bank. The plaintiff admitted the charges and the Disciplinary Committee decided to dismiss him.

Disposal of underlying security of facilities granted by the Group

Case by Group's customers and guarantors against the Group and certain senior officers and a Receiver and Manager appointed by the Group, claiming damages for alleged illegal disposal of a hotel held as security for facilities granted by the Group. The Group strongly defends the case denying these allegations.

Set off of receivables with deposits

Case concerns a set off of a receivable against a deposit. The plaintiffs allege that the Defendants wrongly proceeded to a set off against plaintiffs' pledged deposit and claim the same amount back. The Group's position is that the set off was lawful and properly effected. The case was adjourned many times. The plaintiffs do not appear to pursue the case vigorously at all.

27. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following derivative financial instruments for trading:

Forward contracts:

These are contracts for trading foreign currency to be settled at a future date. Forward contracts specify the exchange rate at which two currencies will be traded at a specific future date. The exchange rate is determined at the trade date.

Foreign currency swaps:

These are contracts to exchange cash flows in different currencies. Foreign currency swaps are commitments to exchange specific amounts of two different currencies including interest, at a specific future date. The foreign currency swap contracts are valued at their fair value (using the current exchange rates) by calculating the new swap points at the date of the valuation.

27. FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Foreign currency swaps (continued)

The notional amounts of those contracts provide a basis for comparison with other financial instruments recognised at the balance sheet, but they do not represent the amounts of future cash flows or the fair value of the derivatives and, therefore, do not provide an indication as to the Group's exposure to credit and other market risks. The fair value of the derivative financial instruments may be positive or negative as a result of fluctuations in the current exchange rates in relation to the prevailing terms. Derivatives are presented as assets when their fair value is positive and as liabilities when their fair value is negative.

The notional and fair values of derivative financial instruments were as follows:

	Notional contract amount	Fair Value	
		Assets	Liabilities
	€	€	€
30 June 2018			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	1.320.000	9.496	7.031
Currency swaps	32.407.003	188.793	245.056
		198.289	252.087
Derivative on equity shares (1)		-	677.705
		-	677.705
Total derivative financial instruments		**198.289**	**929.792**

	Notional contract amount	Fair Value	
		Assets	Liabilities
	€	€	€
31 December 2017			
Derivatives held for trading:			
Foreign exchange derivatives			
Forward contracts	7.332.689	13.170	469.451
Currency swaps	80.708.705	19.097	659
Total derivative financial instruments		**32.267**	**470.110**

(1) It is considered that the agreement between HMS and PBSA (refer to Note 18) carries a derivative which is recognised on the balance sheet indicating the difference between the fair value at each reporting date and the price set by the SPA.

28. GROUP COMPANIES

The subsidiary companies included in the interim condensed consolidated financial statements of the Group, their country of incorporation, their activities and the percentage of share capital held by the Bank as at 30 June 2018 and 31 December 2017 are:

	Country of incorporation	Activities	Percentage holding % 30 June 2018	Percentage holding % 31 December 2017
EMF Investors Limited	Cyprus	Dormant	100%	100%
AstroBank Insurance Agency Limited	Cyprus	Insurance Broker	100%	100%
Adflikton Investments Ltd	Cyprus	Investment property owner	100%	100%
Costpleo Investments Ltd	Cyprus	Investment property owner	100%	100%
Cutsofiar Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Gravieron Company Ltd	Cyprus	Investment property owner	100%	100%
Kaihur Investment Ltd	Cyprus	Investment property owner	100%	100%
Pertanam Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Rockory Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Alarconaco Enterprises Ltd	Cyprus	Investment property owner	100%	100%
Langesee Limited	Cyprus	Investment property owner	100%	100%
Bakkens Limited	Cyprus	Investment property owner	100%	100%
Achardz Limited	Cyprus	Investment property owner	-	100%
Xepa Limited	Cyprus	Investment property owner	100%	100%
Olemo Limited	Cyprus	Investment property owner	100%	-
Todero Limited	Cyprus	Investment property owner	100%	-

28. GROUP COMPANIES (continued)

All Group companies are being consolidated using the acquisition method of accounting.

29. MANAGEMENT OF FINANCIAL RISKS

Like any other banking group, the Group is exposed to a variety of risks from the financial instrument it holds. These risks are monitored on a continuous basis using various methods, so as to avoid the excessive concentration of risk. The nature of these risks as well as the ways in which they are managed are outlined below.

Credit risk

Credit risk arises from the possibility of losses relating to late payments or failure to pay the Group by its counterparties. Credit risk management focuses on ensuring a disciplined risk culture, transparency and rational risk taking, based on international best practices.

The Group’s Management has established the provisions for the impairment of financial assets based on the economic conditions and prospects as at the period/ year end.

The provision for loans and advances is determined using the method of expected credit losses model as required by the relevant standards (refer to Note 2).

Credit risk management

Credit risk management methodologies are modified to reflect the changing financial environment. The various credit risk assessment methods used are revised annually or whenever deemed necessary and are adjusted according to the Group’s overall strategy and short-term and long-term objectives.The various analyses of economic sectors and sub-sectors, combined with economic forecasts, provide the guidelines for the determination of the credit policy, which is revised from time to time.

Having as target the minimisation of credit risk, counterparty limits have been set, at the same time taking into consideration the credit rating of the debtor, the assigned collaterals and guarantees that reduce the exposure of the Group to credit risk, as well as the nature and duration of the credit facility. Regarding each debtor’s credit rating analysis, this is carried out by taking into consideration the country’s risk but also the economic sector in which it operates, as well as qualitative and quantitative characteristics.

At the same time, limits have been established for the approval of credit facilities and lending procedures in order to ensure the objectivity, independence and monitoring of new and existing loans.

During the approval process the total credit risk is examined for each counterparty or group of counterparties which are related at Group level. At the same time, any concentration is analysed and monitored on a continuous basis, with an aim to restrict potential large openings and dangerous concentrations, so that these will be in line with existing credit policy limits. Concentration of credit risk can arise at the level of an economic sector, at counterparty or group of counterparties, country, currency or nature of collateral.

Past due advances are monitored on a continuous basis and a systematic segregation between performing and non–performing advances is carried out according to the internal policy of the Group which takes into account the criteria of the Central Bank of Cyprus. Significant exposures or delays are communicated to the Management which oversees the corresponding department for taking preventive or corrective measures.

Under the credit risk management framework, there is an evaluation of the effects of extreme but feasible scenarios on the quality of the loan portfolio and to the available capital, through simulation of crisis conditions (stress testing). The simulations examine separately each business and individual portfolio and estimate possible increases of unsecured advances which are likely to arise due to future decreases in collateral values. The unsecured exposures are calculated based on values after the application of haircuts as defined by the credit risk management policy.

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Internal rating systems

The methods for evaluation of credit rating differ depending on the type of counter party in the following categories: central governments (purchase and holding of bonds), financial institutions, large corporates and SMEs and individuals.

Individuals are evaluated based on two different methods of internal grading. The first method relates to existing customers and is based on the customers' repayment history and their general cooperation with the Group, while the second method is based both on demographic factors and objective financial data (e.g. income, assets etc.) and is applied to both existing and new customers.

For the evaluation of large corporate and SMEs, the system used is Moody's Risk Advisor (MRA), which evaluates the financial condition of the business based on its economic and qualitative data, but also based on the economic sector it operates in.

The evaluation process is performed on a regular basis or when conditions require it so that the customer' s credit score is representative of the credit risk being undertaken and functions as a risk warning sign.

Maximum exposure to credit risk before collaterals and other credit improvements

The customer's credit rating is used during the process of approving credit facilities and the setting of respective credit limits, for internal calculations of the probability of default as well as for monitoring changes in the quality of the loan portfolio of the Group, with the aim to develop the appropriate strategies for avoiding undertaking increased risks.

The table below presents the maximum exposure to credit risk that results from financial instruments included in the interim condensed consolidated balance sheet, without taking into consideration collaterals or any other credit mitigations received. For financial assets included in the interim condensed consolidated balance sheet, the exposure to credit risk is equal to their carrying value.

	Maximum exposure	
	30 June 2018	31 December 2017
	€	€
Credit risk exposure from financial assets on the interim condensed consolidated balance sheet:		
Balances with Central Banks	372.582.409	315.092.802
Placements with other banks	72.524.244	51.629.291
Loans and advances to customers	523.334.989	513.519.525
Available for sale financial assets	-	214.654.860
Debt securities at amortised cost	261.473.496	-
Debt securities at fair value through profit or loss	582.932	15.810.292
Derivative financial instruments	198.289	32.267
Other assets	2.423.913	1.789.962
	1.233.120.272	**1.112.528.999**
Credit risk exposure from off balance sheet items:		
Credit guarantees	243.256	79.300
Letters of guarantee	31.894.286	23.073.758
Unutilised credit limits	61.312.632	58.116.359
Total off balance sheet items	93.450.174	81.269.417
Total on and off balance sheet items	**1.326.570.446**	**1.193.798.416**

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

According to the above table, 34% (31 December 2017: 31%) of the total maximum exposure is derived from placements with the Central Bank and with other banks, 39% (31 December 2017: 43%) from loans and advances to customers and 20% (31 December 2017: 19%) is derived from investment in bonds classified at amortised cost and at fair value through profit or loss.

The Group obtains collaterals so as to better manage the credit risk that arises from loans and advances. The main types of collaterals that the Group obtains are: (a) mortgages, (b) bank guarantees, (c) deposits, (d) pledging of shares, (e) other encumbrances and (f) personal and corporate guarantees.

The Group's Management regularly monitors the changes in the market value of the collateral and, where necessary, requests the pledging of additional collateral in accordance with the relevant agreement.

The Group offers guarantee facilities to its customers under which the Group may be required to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs.

Letters of credit and guarantee (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to risks similar to those of loans and advances and are therefore monitored by the same policies and control processes.

The Group's maximum exposure to credit risk is analysed by geographical area as follows:

	Maximum exposure	
	30 June 2018	**31 December 2017**
	€	**€**
On balance sheet		
Cyprus	965.016.131	961.138.748
Greece	62.823.907	24.161.156
Other countries	205.280.234	127.229.095
	1.233.120.272	**1.112.528.999**
Off balance sheet		
Cyprus	89.201.627	79.967.867
Greece	393.408	259.514
Other countries	3.855.139	1.042.036
	93.450.174	**81.269.417**
Total on and off balance sheet		
Cyprus	1.054.217.758	1.041.106.615
Greece	63.217.315	24.420.670
Other countries	209.135.373	128.271.131
	1.326.570.446	**1.193.798.416**

Geographical analysis is based on the counterparty country of operation.

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Expected credit loss measurement

The table below discloses the values of the financial assets and off balance sheet instruments by staging before ECL:

30 June 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Balances with Central Banks	389.624.473	-	-	-	389.624.473
Placements with other Banks	72.524.244	-	-	-	72.524.244
Financial assets at amortised cost	261.473.496	-	-	-	261.473.496
Financial assets at FVTPL	582.932	-	-	-	582.932
Loans and advances to customers	309.904.065	35.825.149	356.045.019	45.596.994	747.371.227
Other assets	2.423.913	-	-	-	2.423.913
Total financial assets in scope of ECL requirements	**1.036.533.123**	**35.825.149**	**356.045.019**	**45.596.994**	**1.474.000.285**
Credit guarantees	243.256	-	-	-	243.256
Letters of guarantee	27.777.381	2.543.203	1.573.702	-	31.894.286
Unutilised limits	59.713.078	803.960	795.594	-	61.312.632
Total off-balance sheet instruments in scope of ECL requirements	**87.733.715**	**3.347.163**	**2.369.296**	**-**	**93.450.174**

The table below discloses the ECL allowance of the financial assets and off balance sheet instruments by Staging**:**

30 June 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Balances with Central Banks	-	-	-	-	-
Placements with other Banks	-	-	-	-	-
Financial assets at amortised cost	330.363	-	-	-	330.363
Loans and advances to customers	4.370.663	985.415	181.461.847	37.218.313	224.036.238
Other assets	-	-	-	-	-
Total financial assets in scope of ECL requirements	**4.701.026**	**985.415**	**181.461.847**	**37.218.313**	**224.366.601**
Credit guarantees	14	-	-	-	14
Letters of guarantee	317.974	321.785	467.472	-	1.107.231
Total off-balance sheet instruments in scope of ECL requirements	**317.988**	**321.785**	**467.472**	**-**	**1.107.245**

ECL allowance on unutilised limits is included in ECL allowance of loans and advances to customers.

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Currency concentration of loans and advances to customers

	30 June 2018 €	31 December 2017 €
30 June 2018		
Euro	687.589.221	670.609.253
US Dollar	29.172.314	21.688.287
British Pound	3.118.611	3.525.227
Swiss Franc	27.437.246	27.735.526
Other currencies	53.835	54.521
	747.371.227	**723.612.814**

Geographical analysis

The following table presents the credit quality of the Group’s loans and advances to customers at amortised cost by geographical concentration:

30 June 2018	Cyprus €	Greece €	Other countries €	Total €
Stage 1	288.092.873	12.282.367	9.528.825	309.904.065
Stage 2	33.990.764	4.693	1.829.692	35.825.149
Stage 3	353.667.868	13.978	2.363.173	356.045.019
POCI	45.596.994	-	-	45.596.994
	721.348.499	**12.301.038**	**13.721.690**	**747.371.227**

The following table presents the carrying amount of the Group’s financial assets which are subject to credit risk by geographical sector. For the purposes of this table, the distribution of the exposure on financial assets in the geographical sectors has been performed based on the relevant counterparties’ country of operation.

	Cyprus €	Greece €	Other countries €	Total €
30 June 2018				
Deposits with the Central Bank	372.582.409	-	-	372.582.409
Placements with other banks	999.944	592.399	70.931.901	72.524.244
Loans and Advances to customers	499.283.048	12.243.545	11.808.396	523.334.989
Financial assets at amortised cost	89.141.123	49.792.436	122.539.937	261.473.496
Financial assets at FVTPL	582.932	-	-	582.932
Derivative financial instruments	2.762	195.527		198.289
Other Assets	4.560.397	-	-	4.560.397
	967.152.615	62.823.907	205.280.234	1.235.256.756
Credit risk exposure from off balance sheet assets:				
Credit guarantees	243.256	-	-	243.256
Letters of guarantee	31.411.367	29.865	453.054	31.894.286
Unutilised credit limits	57.547.004	363.543	3.402.085	61.312.632
Total off balance sheet assets	**89.201.627**	**393.408**	**3.855.139**	**93.450.174**
Total on and off balance sheet assets as at 30 June 2018	**1.056.354.242**	**63.217.315**	**209.135.373**	**1.328.706.930**

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Geographical analysis (continued)

	Cyprus	Greece	Other countries	Total
	€	€	€	€
31 December 2017				
Deposits with the Central Bank	315.092.802	-	-	315.092.802
Placements with other banks	999.887	973.619	49.655.785	51.629.291
Loans and advances to customers	489.830.673	3.205.005	20.483.847	513.519.525
Available for sale financial assets	137.615.132	19.950.265	57.089.463	214.654.860
Financial assets at fair value through profit or loss	15.810.292	-	-	15.810.292
Derivative financial instruments	-	32.267	-	32.267
Other Assets	2.666.421	-	-	2.666.421
	962.015.207	**24.161.156**	**127.229.095**	**1.113.405.458**
Credit risk exposure from off balance sheet assets:				
Credit guarantees	79.300	-	-	79.300
Letters of guarantee	22.826.845	52.736	194.177	23.073.758
Unutilised credit limits	57.061.722	206.778	847.859	58.116.359
Total off balance sheet assets	**79.967.867**	**259.514**	**1.042.036**	**81.269.417**
Total on and off balance sheet assets as at 31 December 2017	**1.041.983.074**	**24.420.670**	**128.271.131**	**1.194.674.875**

Business sector analysis

The table below presents the carrying amount of the Group's financial assets that are subject to credit risk based on the business sector in which the counterparty operates.

	Industrial	Tourism	Commerce	Real estate and Construction	Financial Institutions	Governments	Other sectors	Total
	€	€	€	€	€	€	€	€
30 June 2018								
Deposits with Central Bank	-	-	-	-	372.582.409	-	-	372.582.409
Placements with other banks	-	-	-	-	72.524.244	-	-	72.524.244
Advances								
Advances to individuals	27.248	1.026	42.002	30.400	41	-	138.908.251	139.008.968
Advances to businesses:								
Large entities & organisations	10.253.476	11.757.245	29.086.999	7.813.848	14.303.081	-	68.359.521	141.574.170
Small and medium size enterprises	12.896.904	8.193.518	40.768.348	121.699.879	12.865.640	4.207.657	42.119.905	242.751.851
Financial assets at amortised cost	-	-	-	-	78.221.156	156.070.689	27.181.651	261.473.496
Financial assets at fair value through profit or loss	-	-	-	-	350.951	231.981	-	582.932
Derivative financial instruments	-	-	-	-	198.289	-	-	198.289
Other assets	-	-	-	-	-	-	4.560.397	4.560.397
	23.177.628	19.951.789	69.897.349	129.544.127	551.045.811	160.510.327	281.129.725	1.235.256.756
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	112.208	-	131.048	-	-	-	-	243.256
Letters of guarantee	1.166.029	10.615	8.959.008	14.605.951	1.415.354	-	5.737.329	31.894.286
Unutilised credit limits	12.980.960	3.196.911	9.738.818	6.048.058	287.187	368.445	28.692.253	61.312.632
	14.259.197	3.207.526	18.828.874	20.654.009	1.702.541	368.445	34.429.582	93.450.174
Total on and off balance sheet assets 30 June 2018	**37.436.825**	**23.159.315**	**88.726.223**	**150.198.136**	**552.748.352**	**160.878.772**	**315.559.307**	**1.328.706.930**

Notes to the Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2018

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Business sector analysis (continued)

	Industrial €	Tourism €	Commerce €	Real estate and Construction €	Financial Institutions €	Governments €	Other sectors €	Total €
31 December 2017								
Deposits with Central Bank	-	-	-	-	315.092.802	-	-	315.092.802
Placements with other banks	-	-	-	-	51.629.291	-	-	51.629.291
Advances :								
Advances to individuals	29.911	429	22.829	20.299	-	-	130.903.392	130.976.860
Advances to businesses:								
Large entities & organisations	6.582.246	-	21.394.763	8.213.498	15.320.916	-	68.605.690	120.117.113
Small and medium size enterprises	17.017.440	11.178.329	45.756.378	119.673.333	11.857.909	4.499.855	52.442.308	262.425.552
Available for sale financial assets	-	-	-	-	-	214.654.860	-	214.654.860
Financial assets at fair value through profit or loss	-	-	-	-	-	15.810.292	-	15.810.292
Derivative financial instruments	-	-	-	-	32.267	-	-	32.267
Other assets	-	-	-	-	-	-	2.666.421	2.666.421
	23.629.597	11.178.758	67.173.970	127.907.130	393.933.185	234.965.007	254.617.811	1.113.405.458
Credit Risk exposure from off balance sheet assets:								
Credit guarantees	-	-	79.300	-	-	-	-	79.300
Letters of guarantee	1.306.475	10.615	1.480.476	13.684.242	1.432.690	-	5.159.260	23.073.758
Unutilised credit limits	12.209.338	3.320.888	10.283.877	3.146.138	471.187	1.717.208	26.967.723	58.116.359
	13.515.813	3.331.503	11.843.653	16.830.380	1.903.877	1.717.208	32.126.983	81.269.417
Total on and off balance sheet assets 31 December 2017	**37.145.410**	**14.510.261**	**79.017.623**	**144.737.510**	**395.837.062**	**236.682.215**	**286.744.794**	**1.194.674.875**

Credit quality of loans and advances to customers

The following tables present the credit quality of the Group's loans and advances to customers at amortised cost by business line concentration.

30 June 2018	Stage 1 €	Stage 2 €	Stage 3 €	POCI €	Total €
Corporate	230.154.016	18.467.024	13.078.493	169.448	261.868.981
Retail	78.334.018	14.962.686	84.939.734	2.966.591	181.203.029
International Banking services	1.382.265	8.788	653.053	-	2.044.106
Recoveries Banking Unit	28.096	2.386.651	256.934.787	42.460.955	301.810.489
Wealth Management	5.670	-	438.952	-	444.622
	309.904.065	**35.825.149**	**356.045.019**	**45.596.994**	**747.371.227**

	31 December 2017 €
Neither past-due nor impaired	276.796.344
Past-due but not impaired	149.908.888
Impaired	296.907.582
Gross loans and advances	**723.612.814**

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Loans and advances to customers that are past due but not impaired and impaired

	31 December 2017 Impaired €	31 December 2017 Past due but not impaired €
No arrears	7.967.942	-
-1- 30 days past due	17.887.395	114.038.487
-31-60 days past due	600.235	15.445.633
-61-90 days past due	6.686.890	3.227.700
-More than 90 days past due	263.765.120	17.197.068
Gross loans and advances	**296.907.582**	**149.908.888**

Collateral and other credit enhancements obtained

As at 30 June 2018 the Group held investment properties and financial assets at fair value through profit or loss acquired in satisfaction of debt of €58.275 thousand (31 December 2017: €64.730 thousand) and €11.607 thousand (31 December 2017: €12.225 thousand) respectively.

During the six month period to 30 June 2018 there were disposals of repossessed collaterals of €8.985 thousand (31 December 2017: €1.301 thousand)

Risk of counterparty banks

The Group runs the risk of loss of capital due to the possibility that a counterparty bank will delay or default on its payments on any existing or contingent liabilities. Through its daily operations, the Bank enters into transactions with other banks and financial institutions. By entering into these transactions the Bank runs the risk of incurring losses in the event of late repayments or default of existing and contingent liabilities of the counterparty banks.

The limits set for counterparty banks reflect the level of risk that is considered acceptable and are then distributed to the Treasury Department or to any other service departments where this kind of risk exists, based on the needs and volume of transactions within each service department. Generally, the limits are determined by banking sector evaluation models, as well as by the requirements of the supervisory authorities. The credit limit set for each counterparty is divided into sub-limits covering placements, investments, foreign exchange trading as well as the daily clearing limit. Actual positions are monitored against the limits on a daily basis and in real time.

Country risk

The Group runs the risk of losing capital due to possible political, economic and other events in a particular country where the Group's capital or liquid funds have been placed or invested in local banks and financial institutions. All countries are evaluated based on their size, economic data and country prospects and credit-worthiness rates provided by international credit rating agencies (Fitch, Moody's and Standard & Poor's). Actual country positions are monitored against their limits on a daily basis. Review of the limits is performed at least once a year with smaller countries with a lower degree of credit-worthiness going through a more extended and more frequent analysis and evaluation, where appropriate.

Credit risk concentration

There are restrictions to the concentration of credit risk as per the Cyprus Banking Law and the relevant Capital Requirements Regulation (CRR) issued by the European Union. According to these restrictions, exposures to customers or group of connected customers, other than institutions, shall not exceed 25% of a bank's own funds, after taking into account the effect of credit risk mitigation in accordance with articles 399-403 of CRR. Exposures to

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Credit risk (continued)

Credit risk concentration (continued)

institutions shall not exceed 25% of a bank's capital base or €150m whichever is higher. Where the amount of €150m is higher than 25% of a bank's own funds, after taking into account the effect of credit risk mitigation techniques, the limit shall not exceed 100% of a bank's own funds. As at and during the six-month period ended 30 June 2018 there were no violations of the CRR Large Exposure Limits.

As at and during the six-month period ended 30 June 2018 the Bank exceeded the maximum legal lending limit to a major shareholder under the Cyprus Banking Law primarily due to a credit enhancement provided, in the form of a guarantee, by Piraeus Bank S.A. as part of the transaction between Piraeus Bank S.A. and Holding M. Sehnaoui SAL. The Central Bank of Cyprus has been notified accordingly and has not requested any remedial action from the Bank.

Market risk

Market risk includes interest rate risk, currency risk and liquidity risk.

Interest rate risk

Interest rate risk is the risk that the value of financial instruments and net interest income will decrease due to adverse movements in market interest rates. Interest rate risk arises due to timing differences in the re-pricing of interest rates or the maturity of assets and liabilities. Interest rate risk arises mainly from interest bearing banking activities and the Group's loan portfolio.

Currency risk

Currency risk is the risk that the value of financial instruments and assets and liabilities fluctuates due to changes in exchange rates. Currency risk arises from a positive or negative open position in a foreign currency, exposing the Group to changes in the relevant exchange rate. This risk may arise from the holding of assets in one currency funded by liabilities in another currency or from a spot or forward foreign exchange trade or from derivatives.

The Group enters into foreign exchange transactions in order to accommodate customer needs and to hedge its open positions. The Group's Treasury department also enters into spot foreign exchange transactions within predefined and approved limits, as well as transactions in derivatives such as foreign exchange forward contracts and foreign exchange swaps.

The following risk exposure calculation methods and associated limit structures are used for monitoring:
a. Open position by currency – net positive or negative position in each currency.
b. Total net positive or negative position.

The approved limits are systematically monitored and reviewed and are assessed at least annually. These limits may be modified, according to the strategy of the Group and the prevailing market conditions.

Risk from changes in the prices of equities and securities

The risk in relation to the prices of equity securities that are held by the Group arises from possible adverse changes in market prices of equity securities. The Group invests in listed and non-listed equity shares which, depending on the purpose of the investment, are classified in the appropriate portfolio. Currently investments in equity securities, are classified at FVTOCI and FVTPL. Cyprus government bonds and corporate bonds listed in an active market which are held for trading, are also classified at FVTPL.

29. MANAGEMENT OF FINANCIAL RISKS (continued)

Risk management - Market risk (continued)

Liquidity risk

Liquidity risk is the risk that the Bank cannot find sufficient liquid funds in order to meet its immediate liabilities, without incurring significant economic costs. This risk is monitored and controlled by the Treasury Department, the Finance Division and the Risk Management Department.

The Local Regulatory Protective Ratios were abolished at the beginning of 2018 and new prudential rules have been introduced by the Central Bank of Cyprus. In addition to the Liquidity Coverage Ratio (LCR) which is based on EU regulation 2016/61, as of 1 January 2018 the Bank must comply with enhanced liquidity requirements in the form of add-ons to the minimum LCR requirement. The objective of this measure, which needs to be monitored on a daily basis, was to ensure a gradual release of the excess liquidity in the Cyprus banking system arising from the lower LCR requirement as compared to local prudential requirements previously in place. As at and during the six-month period ended 30 June 2018, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank as well as the CBC Add-Ons.

Additionally, the monitoring and management of liquidity risk is achieved through the use and monitoring of the following:

The concentration, diversity and maturity profile of customer deposits

a. Adopting pricing policies that contribute to establishing a stable depository base
b. Maintaining a balance in the Minimum Reserve Account as specified by the applicable Supervisory Authorities.
c. Monitoring the Weekly Liquidity Position as submitted to the Central Bank of Cyprus
d. Monitoring Liquidity Monitoring Metrics (ALMM) under Article 415(3)(b) of Regulation (EU) No 575/2013

As at and during the six month period ended 30 June 2018, the Bank was in compliance with the required prudential liquidity indicator of the European Central Bank. The liquidity coverage ratio stood at 326% (31 December 2017: 323%) compared to minimum requirement of 100%.

30. CAPITAL MANAGEMENT

The main objective of the Bank's capital management function is to ensure compliance with the relevant supervisory capital requirements and to maintain healthy capital adequacy ratios which can support the Bank's growth and maximise shareholder value.

The capital adequacy regulations which govern the activities of the Bank are determined by the Central Bank of Cyprus (CBC) and the European Central Bank (ECB).

During the period ended 30 June 2018, the Bank was in full compliance with the Overall Capital Requirement (OCR) set by the ECB which consists of the Total SREP Capital Requirement (Pillar I and Pillar II) and the combined buffer requirement. Following an amendment in the Cypriot Banking Law in February 2017 the Capital Conservation Buffer (CCB) is being gradually phased-in and has a retroactive application. The CCB increases by 0,625% every year starting from 1 January 2016 to 2,5% by 1st January 2019. For 2018, the CCB stands at 1,875%.

The Pillar III disclosures under the Capital Requirements Regulation (EU) No. 575/2013 are published on an annual basis and are available on the Bank's website (www.astrobank.com) (Investor Relations).

31. FAIR VALUE OF ASSETS AND LIABILITIES

Fair value represents the amount at which an asset could be exchanged, or a liability settled, in an arm's length transaction. Some differences may arise between the carrying value and the fair value. The definition of fair value assumes that the Group will continue its normal operations without any intention or requirement to curtail materially the scale of its operations or to undertake a transaction on adverse terms which would bring about losses to the

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

Group. Generally accepted methods of determining fair value include reference to quoted market prices and transactions for similar financial instruments.

The Group uses the following hierarchy to classify and disclose fair value:

Level 1: investments measured at fair value using quoted prices in active markets for similar investments;

Level 2: investments measured at fair value using valuation models in which all elements that significantly influence fair value are based on observable market data either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: investments measured at fair value using valuation models in which elements that significantly influence fair value are not based on observable market data.

The analysis of financial instruments measured at fair value per tier classification is presented below:

	Level 1 €	Level 2 €	Level 3 €	Total €
30 June 2018				
Financial Assets				
Financial assets at fair value through other comprehensive income	-	-	6.990.945	6.990.945
Financial assets at fair value through profit or loss	582.932	-	18.240.912	18.823.844
Derivative financial instruments	-	198.289	-	198.289
	582.932	**198.289**	**25.231.857**	**26.013.078**
Financial liabilities				
Derivative financial instruments	-	929.792	-	929.792
	-	**929.792**	**-**	**929.792**

There were no significant transfers between levels during the period.

	Level 1 €	Level 2 €	Level 3 €	Total €
31 December 2017				
Financial Assets				
Available for sale financial assets	214.654.860		12.204.149	226.859.009
Financial assets at fair value through profit or loss	15.810.292	-	12.225.044	28.035.336
Derivative financial instruments	-	32.267	-	32.267
	230.465.152	**32.267**	**24.429.193**	**254.926.612**
31 December 2017				
Financial liabilities				
Derivative financial instruments	-	470.110	-	470.110
	-	**470.110**	**-**	**470.110**

There were no significant transfers between levels during the year.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

of Cyprus government bonds and Cypriot corporate bonds listed in Foreign Stock Exchanges and classified at fair value through profit or loss.

The fair value of financial instruments that are not traded in an active market (for example equity instruments not listed in an active market) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Adjusted comparable multiples of market prices to book value.
- Other techniques, such as discounted cash flow analysis and dividend discount model.

The following table presents the changes in Level 3 instruments for the six-month period ended 30 June 2018:

	Debt instruments €	Equity instruments €	Total €
1 January 2018	12.225.044	12.204.149	24.429.193
Additions	-	65.310	65.310
Gain recognised in the consolidated income statement	-	1.355.409	1.355.409
Disposals	(618.056)	-	(618.056)
30 June 2018	11.606.988	13.624.868	25.231.856
Total gains for the period included in the interim condensed consolidated income statement			
Change in unrealised gains (or losses) for the period included in interim condensed consolidated income statement for assets held at the end of the reporting period	-	1.355.409	1.355.409

The following table presents the changes in Level 3 instruments for the year ended 31 December 2017:

	Debt instruments €	Equity instruments €	Total €
1 January 2017	11.859.747	12.204.149	24.063.896
Disposals	(341.760)	-	(341.760)
Gain recognised in the consolidated income statement	707.057	-	707.057
31 December 2017	12.225.044	12.204.149	24.429.193
Total gains for the period included in the interim condensed consolidated income statement			
Change in unrealised gains (or losses) for the year included in consolidated income statement for assets held at the end of the reporting period	707.057	-	707.057

32. RELATED PARTY TRANSACTIONS

The Group is owned by a number of investors, none of which, has a direct or indirect controlling interest on the Group.

The table below presents transactions and balances with the key management personnel and board members, and connected persons as at 30 June 2018 and 31 December 2017:

	30 June 2018 €	31 December 2017 €
Loans and other advances	283.426	278.439
Interest income	3.252	7.027
Deposits	2.298.197	2.472.168
Interest expense	9.242	17.953
Other fees	-	11.794

There were no contingent liabilities or commitments towards the Group's key management personnel.

Connected persons include spouses, dependent children, as well as companies in which key management personnel hold, directly or indirectly, at least 20% of the voting rights during a general meeting.

Remuneration of key management personnel of the Group

	30 June 2018 €	30 June 2017 €
Key management personnel remuneration:		
Salaries and other current benefits and employer's social insurance contributions	455.540	458.379
Total key management personnel remuneration – under their executive capacity (i)	**455.540**	**458.379**
Total key management personnel remuneration – as directors	-	-

(i) Key management personnel consists of the Group's General Management

Non-executive directors remuneration

	30 June 2018 €	30 June 2017 €
Total remuneration of non-executive directors	191.575	95.000

33. EVENTS AFTER THE REPORTING PERIOD

Through an agreement dated 31st July 2018 entered into between AstroBank Limited and USB Bank PLC ('USB'), it was agreed that AstroBank Limited shall acquire all the assets, liabilities and the banking business of USB, excluding only certain assets, with a view to maintain the business as a going concern and consolidate it with its own business. The purchase consideration, payable in cash on completion, is €52.724.712 less the net book value of the Excluded Assets as reflected in the Reference Accounts; these being the fully audited consolidated financial statements of USB as of 30th June 2018. The consideration may be further reduced (up to a capped amount of €3m) by any reduction in the net asset value as at 30th June 2018 per the Reference Accounts compared to the Management Accounts. The acquisition is expected to be financed by a share capital increase by AstroBank for €54.000.000, primarily from AstroBank's existing shareholders.

33. EVENTS AFTER THE REPORTING PERIOD (continued)

The agreement is expected to be completed before the end of the year following the satisfaction of conditions precedent relating to regulatory approvals, delivery of certain information (including externally audited Reference Accounts) by the seller, seller's shareholder approval and successful completion of the capital raise on the part of AstroBank.

It is projected that, following completion, AstroBank, will grow by more than 55% reaching Total Assets of more than €2 billion, with Gross Loans at €1,2 billion, Customer Deposits at €1,9 billion and Equity at circa €160 million.

Other than the above, there were no events after the reporting date which have a material bearing on the understanding of the financial statements.

Independent Auditors' Report

To the Members of AstroBank Limited

Report on the interim condensed consolidated financial statements

We have reviewed the interim condensed consolidated financial statements of AstroBank Limited (the "Bank") and its subsidiaries (together the "Group"), which are presented on pages 10 to 63, that comprise the interim condensed consolidated financial position as at 30 June 2018 and the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six month period ended 30 June 2018, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the interim condensed consolidated financial statements

Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with the International Financial Reporting Standards applicable to interim financial reporting, IAS 34 Interim Financial Reporting ("IAS 34"), and for such internal control as management determines is necessary to enable the preparation of interim condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying interim condensed consolidated financial statements. We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 (Revised), Engagements to Review Historical Financial Statements. ISRE 2400 (Revised) requires us to conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework. This Standard also requires us to comply with relevant ethical requirements.

A review of financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement. The auditor performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim condensed consolidated financial statements do not present fairly, in all material aspects the financial position of the Group and of its financial performance and cash flows for the six month period ended 30 June 2018, in accordance with the IAS 34 'Interim Financial Reporting.

Savvas Pentaris

Certified Public Accountant and Registered Auditor

for and on behalf of

Ernst & Young Cyprus Limited

Certified Public Accountants and Registered Auditors

Nicosia

30 October 2018