ANNUAL REPORT 2016

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Contents

Notice of Annual General Meeting

The Annual General Meeting of the Members of USB Bank PLC will be held on 19 July, 2017 at the Bank's offices on 1st Floor, 1 Andrea Chaliou Street, 2408 Engomi, at 12:00 noon to transact the following business:

AGENDA

1. To review and if thought fit to approve the Directors' Report for the year ended 31 December 2016.

2. To review and if thought fit to approve the Consolidated Financial Statements and the Independent Auditors' Report for the year ended 31 December 2016.

3. Election of the members of the Board of Directors in place of those who retire and election of member appointed by the Board of Directors in 2017.

4. Re-appointment of the Independent Auditors and authorisation to the Board of Directors to fix their remuneration.

5. To review and if thought fit to approve the Remuneration Report of the Board of Directors.

6. Any other business, which can be carried out at a General Meeting.

By order of the Board,

Panayiota Charitonos
Secretary

Nicosia, 19 June 2017

Chairman's Statement

Dear stakeholders,

In March 2016 Cyprus succeeded to exit the economic adjustment program earlier than expected and regained access to international capital markets. 2016 was a year of stability for both the Cyprus economy and the Cyprus banking sector.

Cyprus real GDP grew by 2,8% with the growth in year 2017 expected to be at approximately same levels. The positive outlook for the Cyprus economy is also reflected in the upgrades of the country's rating by all international rating agencies indicating the improved levels of confidence. Developments in the country about a potential reunification along with the exploitation of Cyprus' natural resources are being closely monitored in order to assess any potential prospects that are being developed.

The rising confidence was also evident in the Cyprus banking sector with the deposits in the Cyprus banks continuing to grow and the international credit ratings upgrading the Cyprus banks.

Despite the positive developments, challenges remain and involve the high level of non-performing exposures in the banking sector and the deterioration of the external environment which could pose risks for an open economy like Cyprus. The political uncertainty in Europe triggered by a British exit and/or the refugee crisis could lead to economic uncertainty and undermine economic confidence.

The objective for year 2016 for USB Bank was to focus on the strategy set to deal decisively with the management of the non performing exposures in order to effectively reduce them and safeguard the Bank's operations. We have reduced the non-performing exposures by approximately 7% by the end of year 2016 in comparison to year 2015 through sustainable restructuring solutions and other actions including debt to assets swaps.

The Bank's capital base was enhanced by €23 million in May 2016 with the Total Capital Ratio as at year end of 2016 being 14,27% exceeding the minimum imposed by the regulatory authorities. A strong capital base and a strong liquidity set the foundations for the Bank's future growth.

Despite the operational profit of €9,7 million achieved in year 2016, the provisions booked for the year amounting to €12 million resulted in a net loss of €2,3 million. It is important to note that the negative interest rates as per the European Central Bank's decision affect the Bank's profitability considering the excess levels of liquidity.

The outlook for year 2017 remains challenging. The priorities and objectives set for the forthcoming year are the reduction of the non-performing exposures and growth of our loan portfolio thus actively supporting the recovery of the Cyprus economy through financing creditworthy businesses and individuals. Addressing our clients' needs through new products and services thus improving further our customer service remains one of our main priorities.

We will continue to support our clients who face financial difficulties and are willing to cooperate with the Bank but we will take all necessary measures for those who have the financial ability but refuse to fulfil their obligations. Our main concern is to protect all the stakeholders of the Bank.

Despite all the challenges we have laid solid foundations for the Bank's future course and the Bank's Management is ready to have a constructive year for a steady course towards profitability and growth.

Henri Guillemin
Chairman

The Board of Directors of USB BANK PLC (the "Bank"), aiming to the continuous servicing of corporate interest and investors' interest and the provision to the Members of timely information, relating to the Board and the total administration and corporate developments in relation to the Bank, and taking into consideration the provisions of the Directive of the Central Bank of Cyprus to Credit Institutions on Governance and Management Arrangements in Credit Institutions of 2014 ("the Directive on Governance") and all relevant Laws and Regulations in relation to the Governance of the Bank, provides the Members with the present Report on Corporate Governance.

Update on Corporate developments during 2016

During the Annual General Meeting of the shareholders of USB Bank PLC, which was held on 26th July 2016, a resolution was approved pursuant to article 59A of the Companies Law, which stated that the Board of Directors of the Bank was authorised to issue and allot 115,000,000 new ordinary shares of nominal value €0.10 each at the Issue price of €0.20 each (the "Issue"). The resolution stated that the pre-emption rights of the existing Members of the Bank in relation to the said Issue were waived in accordance with the provisions of the Cyprus Companies Law Cap.113 (as amended).
Furthermore, that for the purpose of the increase of the issued share capital of the Bank, the 115,000,000 new ordinary shares of nominal value €0.10 were not offered to all of the existing Members of the Bank on a pro rata basis but were to be issued and allotted at the issue price of €0.20 per share to BLC Bank SAL, following an irrevocable commitment by BLC Bank, the majority shareholder of the Bank, to fully cover the new increase of capital and by depositing €23 million in an escrow account for this purpose. The decision provided further that the 115,000,000 new ordinary shares would rank pari passu with the existing fully paid shares of the Bank.

Due to the fact that the proposed issue would not be allocated to all existing members, BLC Bank SAL expressed its commitment to dispose up to 1,343,160 ordinary shares at the price of €0.20 per share, that represented the issue price of the new shares, to those registered members of the Bank who within 30 days from the date of the Issue to BLC Bank SAL ("Expiry Date"), following the approval of the above resolution at the Annual General Meeting, would express their interest in acquiring such number of shares as would correspond to the ratio and number that they would hold on the Expiry Date. The number 1,343,160 represented the number of shares that would have been offered to them if the issue was offered and allotted to all members of the Bank on a pro rata basis.

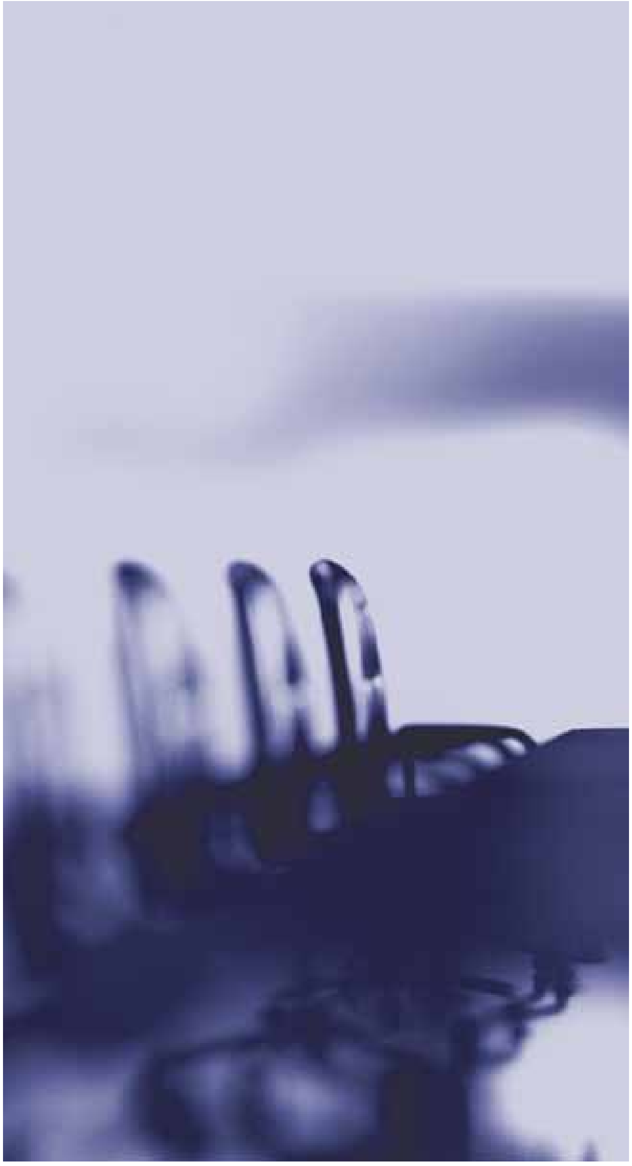
The issue to BLC Bank SAL took effect on 26th of July 2016 and therefore, the Expiry Date was the 25th of August 2016. No requests were received from the existing shareholders for the acquisition by them of any of the aforesaid 1,343,160 ordinary shares.

In view of the successful completion of the issue and allotment of 115,000,000 new ordinary shares to BLC Bank SAL, as aforesaid, the issued share capital of the Bank amounts to €32,173,733 divided into 321,737,330 ordinary shares of nominal value of €0.10 each.

1. Board of Directors

1.1 Overall purpose/objectives

The Bank is governed and controlled by the Board of Directors as per the provisions of its Memorandum and Articles of Association and in compliance with the provisions of the Directive on Governance. The Board of Directors has mainly the role of setting the strategic objectives and ensuring that these objectives are achieved, through the application of adequate internal administration and internal control systems. The Board of Directors is responsible for the monitoring and evaluation of the actions and output of the Executive Management as well as for its conformity with the policies issued.



1.2 Board of Directors Main Responsibilities

Pursuant to the Directive on Governance, all members of the Board of Directors are required to carry out their corresponding duties and responsibilities in accordance with the requirements of the Directive on Governance. Furthermore, all members of the Board of Directors must act in accordance with the provisions of USB BANK PLC's Internal Governance Manual for the Board of Directors and its Committees. The main duties and responsibilities of the Board of Directors include amongst others the following:

a) The Board of Directors of the Bank has the primary responsibility for internal governance at all times. It defines and oversees the implementation of governance arrangements that ensure effective and prudent Management of the Bank, including the segregation of duties and the prevention of conflicts of interest.

b) The Board of Directors has the overall responsibility for the Bank and approves and oversees the implementation of the Bank's strategic objectives, risk strategy and internal governance,

c) The Board of Directors ensures the integrity of the accounting and financial reporting systems, including financial and operational controls and compliance with the law and relevant standards,

d) The Board of Directors oversees the process of disclosure, is responsible for setting and overseeing the selection of key positions as well as for providing effective oversight of Senior Management and the Control Functions.

e) The Board of Directors monitors and periodically assesses the effectiveness of the Bank's governance arrangements and takes appropriate steps to address any deficiencies.

1. Board of Directors (continued)

1.3 Membership and Functioning

a) Pursuant to the Directive on Governance, the Board of Directors consists of not less than seven members and not more than thirteen members.

b) At least fifty percent (50%) of the members of the Board of Directors, rounded down plus one, are Independent.

c) The Executive members must be at least two. They must be not more than twenty five percent (25%) of the members of the Board of Directors rounded down. One of them must be the Chief Executive Officer.

d) A non-Executive member of the Board of Directors holds the position of the Vice Chairperson of the Board of Directors to fulfil the roles and responsibilities of the Chairperson in the absence of the latter.

e) An Independent member of the Board of Directors is appointed Senior Independent member of the Board of Directors. The Senior Independent member of the Board of Directors cannot hold the position of the Chairperson or the Vice-Chairperson.

f) Pursuant to the Articles of Association of the Bank, at the first annual general meeting of the Bank, all directors shall retire and at the annual general meeting of each consecutive year, one third of the directors or a multiple of three or if their number is not three or a number multiplied by three, then the number nearest to the one third (rounded up), shall retire from their position but they have the right of re-election at the Annual General Meeting of the Members of the Bank. The Chief Executive Officer is not taken into consideration for the purposes of this calculation, nor is he eligible for retirement in the aforesaid manner.

g) The Directors to retire in every year shall be those who have been longest in office since their last election. The Board of Directors has power at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors but so that the total number of Directors shall not at any time exceed the number fixed in accordance with the Directive on Governance. Any Director so appointed shall hold office only until the next Annual General Meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting

h) The Board of Directors holds regular meetings to carry out their responsibilities adequately and effectively.

i) A quorum for any meeting of the Board of Directors, including a teleconference meeting, shall be 50% of the members, rounded down, plus one.

j) Members of the Board of Directors may not be absent from Board of Directors meetings, whether physically or otherwise, for more than two (2) consecutive meetings or twenty five percent (25%) of the meetings held annually.

k) Decisions are taken by a majority and in the event of a tie the Chairperson has a casting vote.

l) The Non-Executive members of the Board of Directors hold regular meetings on their own or with the external auditors and/or the Heads of the Control Functions as appropriate, without the presence of the Executive members, at least on a semi-annual basis.

The Non-Executive members of the Board of Directors meet without the Chairperson present at least annually to appraise the Chairperson's performance.

The Chairperson of the Board of Directors is a Non-Executive member. There is a division of responsibilities between the Chairperson and the Executive Management.

The Bank's Directors hold positions in other companies' Boards of Directors. The members of the Board of Directors notify to the Bank the companies in which they take part and also their role in these companies (Executive or Non-Executive). Their participation in other Boards of Directors does not prevent them from dedicating the required time and attention in carrying out their duties as part of their role in the Bank's Board of Directors.

1. Board of Directors (continued)

1.4 Meetings of the Board of Directors

During 2016, the Board of Directors convened ten times.

The Directors receive prompt written notice together with all essential documentation before any Board of Directors meeting, so that they are appropriately prepared during the meeting.

1.5 Composition of the Board of Directors

On 31 December 2015 the Bank's Board of Directors comprised of eleven members, six being independent and five being non-independent. Out of the five non-independent members, two were executive members. Board membership was as follows:

Chairperson:

Mr. Maurice Sehnaoui	Non Independent, Non-Executive Chairperson

Members:

Mr. Nadim Kassar	Non Independent, Non-Executive Vice Chairperson
Fransa Invest Bank SAL represented by Mr.Mansour Bteish	Non Independent, Non-Executive
Mr. Ziyad Baroud	Independent, Non-Executive
Mr. Henri Guillemin	Independent, Non-Executive
Mr. Agis Taramides	Independent, Non-Executive
Mr. George Galatariotis	Independent, Non-Executive
Mr. George Stylianou	Independent, Non-Executive
Mr. Philippos Philis	Independent, Non-Executive
Mr. Andreas Theodorides	Non Independent, Executive
Mrs. Despo Polycarpou	Non Independent, Executive

Secretary:

Mrs. Panayiota Charitonos

1. Board of Directors (continued)

Changes in the composition during 2016

Pursuant to the Articles of Association of the Bank, at the Annual General Meeting of the Members of the Bank which was held on the 26th July 2016, three members of the Board of Directors, namely Messrs. Maurice Sehnaoui, Fransa Invest Bank SAL represented by Mr. Mansour Bteish and Mr. Agis Taramides, retired but were re-elected by the Members of the Bank.

Furthermore Mr. Ziyad Baroud and Mr. Henri Guillemin were elected, having been appointed by the Board of Directors in July and November 2015 respectively.

During the meeting of the Board of Directors held on the 26th of July 2016 following the Annual General Meeting, Mr. Maurice Sehnaoui and Mr. Nadim Kassar were re-elected as Chairperson and Vice-Chairperson of the Board of Directors, respectively. Furthermore, Mr. George Stylianou was re-appointed as Senior Independent member of the Board of Directors.

Structure of the Board of Directors from 31/12/2016 until today

The total number of Board members as at 31/12/2016 remained eleven with the same composition as on 31/12/2015. During the meeting of the Board of Directors held on the 23rd of February 2017, the Chairman of the Board of Directors, Mr Maurice Sehnaoui, resigned from his position both as Chairperson and as member of the Board of Directors and the Board of Directors comprised of ten members. Mr. Henri Guillemin was elected as Chairperson of the Board during the same meeting and the composition of the Board of Directors became as follows:

Chairperson:

Mr. Henri Guillemin	Independent, Non-Executive Chairperson

Members:

Mr. Nadim Kassar	Non Independent, Non-Executive Vice Chairperson
Fransa Invest Bank SAL represented by Mr.Mansour Bteish	Non Independent, Non-Executive
Mr. Ziyad Baroud	Independent, Non-Executive
Mr. Agis Taramides	Independent, Non-Executive
Mr. George Galatariotis	Independent, Non-Executive
Mr. George Stylianou	Independent, Non-Executive
Mr. Philippos Philis	Independent, Non-Executive
Mr. Andreas Theodorides	Non Independent, Executive
Mrs. Despo Polycarpou	Non Independent, Executive

Secretary:

Mrs. Panayiota Charitonos

1. Board of Directors (continued)

1.6 Senior Independent Director

The Senior Independent Director is available to listen to the concerns of the Members of the Bank that have not been resolved through the normal communication channels.

1.7 Definition and Division of Responsibilities of the Chairperson and Managing Director

The responsibilities of the Chairperson are performed by Mr. Henri Guillemin and the responsibilities of the Chief Executive Officer by Mr. Andreas Theodorides. The Chairperson is responsible for the proper running of the Board of Directors' meetings and the General Meetings of the Bank, guides the Board of Directors and deals with strategic issues of the Bank. The Chief Executive Officer has the responsibility for the daily operations of the Bank and deals with the management and the effective monitoring of the activities and operations of the Bank.

1.8 Re-election of Directors

At the next Annual General Meeting of the Members of the Bank, and according to the Articles of Association of the Bank, Mr. Philippos Philis, Mrs Despo Polycarpou and Mr. Nadim Kassar, will retire but are offered for re-election.

Biographical Details of the Members of the Board of Directors

Short biographical details of the members of the Bank's Board of Directors as at the date of this report are set out below: -

Mr. Henri Guillemin (Chairperson of the Board of Directors)
Mr. Henri Guillemin was born in France in 1947. Graduate of St. Joseph de Reims College, France with a Bachelor in Mathematics and holder of a Diploma with Honours from the Institute of Political Sciences in Paris, he acquired a Master degree in Economics from the Paris-Sorbonne University and a Master degree in Business Administration from INSEAD Fontainebleau. He commenced his career in 1973 and has an extensive Banking experience serving in various positions in a number of Financial Institutions including the position of CEO of the Indosuez Bank Bahrain Branch, Managing Director and CEO of the Banque Saudi Fransi in Riyadh and Managing Director and CEO of Credit Agricole Egypt. He was also regional manager for Middle East and African countries at Credit Agricole – Corporate Investment Bank Headquarters in Paris between 2000 and 2007. From 2012 until today he serves as an Independent member of the Board of Directors of Fransabank SAL, Beirut and from 2015 he serves as an Independent member of the Board of Directors of Fransa Invest Bank Sal.

Mr. Nadim Kassar (Vice Chairperson)
Mr. Nadim Kassar is the Vice-Chairman and General Manager of BLC Bank SAL. He holds currently the following positions: General Manager of Fransabank SAL, Founder and Board member of Fransa Invest Bank SAL (FIB), Founder and Chairman of Fransabank Al Djazaïr SPA, Board member of the Association of Banks in Lebanon since 2001, Board member of USB Bank PLC, Board member of Lebanese International Finance Executives (LIFE), Co-Manager of A.A. Kassar (France) SARL and General Manager of A.A. Kassar SAL. Mr. Kassar also is a Board member of the following Institutions: MasterCard Incorporated Asia, Pacific, Middle East & Africa, SAMEA Regional Board of Directors since 2005, NetCommerce, Interbank Payment Network, IPN SAL, Credit Card Management, Founder and Board member of the American Lebanese Chamber of Commerce. He holds as well the position of Deputy Chairman of Société Financière du Liban.
His social activities include the Makassed Philantropic Islamic Association in Beirut as a member of the Board of Trustees, a member of the Lebanese-Chinese inter-parliamentary friendship committee, a member of the Lebanese-Tunisian friendship committee and Treasurer of the Comité des Proprietaires-Ouyoun As Simane. Mr. Kassar was born in 1964 and holds a Bachelor's degree in Business Administration from the American University of Beirut.

Mr. Mansour Bteish representing Fransa Invest Bank SAL
Mr. Mansour Bteish joined Fransabank SAL in 1974. Over the course of four decades, Mr. Bteish held various management positions and headed major Central Departments until he was appointed General Manager of Fransabank SAL in 2005. Mr. Bteish is currently a member of the Board of Directors of several subsidiaries in Lebanon and abroad, including Fransa Invest Bank, BLC Bank SAL, BLC Invest Bank, Lebanese Leasing Company, Fransabank (France), Fransabank El Djazaïr SPA (Algeria), USB Bank PLC (Cyprus), and United Capital Bank (Sudan). Born in 1954, Mr. Bteish holds a Bachelor's degree in Business Administration and a Master's degree in Money and Banking from Université Saint Joseph.

Biographical Details of the Members of the Board of Directors (continued)

H.E. Mr. Ziyad Baroud
Mr. Ziyad Baroud was born in Lebanon in 1970. Graduate of College Saint Joseph Antoura, he acquired a Masters' degree in Law from Saint Joseph University of Beirut and pursued doctoral studies in Paris. He is a court lawyer and managing partner at HBD-T Law Firm, a member of the Board of Directors of BLC BANK SAL, Lebanon and also a member of the Board of Directors of other overseas companies. Between July 2008 and June 2011, he served as the Minister of Interior and Municipalities of the Republic of Lebanon. Prior to his appointment as Minister, he has held a number of academic posts as lecturer at the University Saint Joseph, held a number of significant positions among which: member of the Lebanese National Commission on Electoral Law, Secretary General of the Lebanese Association for Democratic Elections, served as Board member for a number of significant organisations in Lebanon and has received a number of important Lebanese and overseas awards.

Mr. George Stylianou (Senior Independent Director)
Mr. George Stylianou was born in 1966. He has a BA (Honours) degree in Economics from Ealing College of United Kingdom. He is a Fellow of the Association of Chartered Certified Accountants and the Association of Certified Public Accountants of Cyprus. From 1990 to 1993 he worked in London for Moore Stephens Chartered Accountants and from 1994 until today he works as a partner in Moore Stephens Stylianou & Co. Certified Public Accountants and Registered Auditors. He is a member of the Board of Directors of a number of other companies.

Mr. Philippos Philis
Mr.Philippos Philis was born in 1961. He is the founder of Lemissoler Group and has been Managing Director since its establishment in 1996. He is appointed as Chairperson and Chief Executive Officer of the Group since 2009. The Group is active in the shipmanagement, ship operations and shipowning in a diversified fleet of Bulk Carriers, Containers and Ro-Ro / Paper Carriers. In early 1997, he started IMCL Inter Marine Container Lines, one of the most successful container feeder operators in the Baltic Sea, which has been merged with Unifeeder at the end of 2009 creating the largest short sea and container operator in Europe. He graduated from RWTH Aachen with the title of Dipl. Ing. in Mechanical Engineering. He is specialized in Expert Systems applications in Logistics and completed the Executive Leadership Program (ELP) at the Cyprus International Institute of Management (CIIM). He also completed the Private Equity and Venture Capital (PEVC) executive course at the Harvard Business School (HBS). He is an elected member of the Board of Directors of the Cyprus Shipping Chamber (CSC) and has been appointed as Vice President of the Chamber. He is a member of the Board of Directors of the European Communities Shipowners' Associations (ECSA) and a member of the Board of Directors of the International Chamber of Shipping (ICS). He is an elected member of America Bureau of Shipping (ABS), a member of the DNV GL Cyprus Committee and an elected Chairperson of the Cyprus Shipowners Employers Association (CySea). He is a member of the Cyprus Professional Engineers Association (CPEA), the Scientific & Technical Chamber of Cyprus (ETEK) and the Institute of Marine Engineering, Science & Technology (IMarEST). He is a member of the Board of Directors of a number of other companies. He speaks fluent Greek, German and English.

Mr. George Galatariotis
Mr. George Galatariotis was born in 1948. He has a B.Sc Economics degree of the University of London and also an MBA of City University. Since 1986 he is the Managing Director of Galatariotis Technical Ltd.

Mr. Agis Taramides
Mr. Agis Taramides was born in 1971. He has a Bachelor's degree in Mathematics, Statistics and Operational Research and also a Master's Degree in Statistics. He is a fellow of the Institute of Chartered Accountants in England & Wales (FCA), a Certified Fraud Examiner (CFE) and a member of the Institute of Certified Public Accountants of Cyprus. He started his career in 1997 with Hallidays (Chartered Accountants) Limited in the United Kingdom and has since then worked for various audit and advisory firms in Cyprus and abroad. He possesses vast experience in corporate finance financial advisory and fraud. He is currently acting as a freelance specialist advisor in the fields of Fraud and Financial Advisory Services.

Biographical Details of the Members of the Board of Directors (continued)

Mr. Andreas Theodorides
Mr. Andreas Theodorides was born in 1970. He has a BA Economics with specialization in Accounting and Finance of the University of Manchester, United Kingdom. He is a Chartered Accountant, member of the Institute of Chartered Accountants in England & Wales, the Association of Certified Public Accountants of Cyprus and the Association of Internal Auditors Cyprus. He started his career in 1992 in the audit firm of Arthur Andersen Manchester and then in Lombard Natwest Bank Ltd. He has been employed by USB BANK PLC since 1998 where he held various managerial positions. In 2009 he was appointed as Chief Financial Officer. On 1 July 2010 he was appointed as the Deputy Managing Director and as from 29 April, 2014 he holds the position of the Chief Executive Officer of the Bank.

Mrs Despo Polycarpou
Mrs. Despo Polycarpou was born in 1957. She is a Fellow of the Chartered Institute of Bankers (FCIB) and holds the ACIB degree. She started her career in 1976 in Hellenic Bank until 1999 when she was employed by USB BANK PLC. At USB BANK PLC she held various positions including Manager Banking Operations and Trade Services, Nicosia Regional Manager, Manager Banking Services Development, Manager Retail Sector and currently holds the position of the Assistant General Manager, Manager of Compliance & Projects and also the position of the Manager of Human Resources. She is a member of the Board of Cyprus Employers & Industrialists Federation (OEB). During the period from 2009 until October 2015, she was the Secretary General of the Cyprus Institute of Financial Services (formerly The Chartered Institute of Bankers, Cyprus).

2. Confirmations by the Board of Directors

2.1 Internal Control Systems

The Board of Directors confirms that the Bank maintains an effective internal control system, designed to manage and minimize risks which is annually reviewed and assessed for its effectiveness from both the Directors as well as the Audit Committee of the Board of Directors. In this way the procedures for the accuracy and validity of the information provided to investors are reviewed.

The Bank maintains an Internal Audit Department headed by the Manager of Internal Audit Mr. Athos Fasouliotis, Chartered Accountant. The Department currently employs five people.

The Board of Directors confirms that it has conducted a review of the effectiveness of the Bank's internal control systems and the procedures for verifying the correctness and completeness of the information which is provided to the investors and states its satisfaction. The review covers all the systems of controls, including the financial and operational systems as well as the risk management systems. The Bank has assigned to the parent company BLC Bank SAL, the provision of services for the audit of the Information Technology of the Bank.

3. Board of Directors Committees

In accordance with the provisions of the Directive on Governance, an Audit, a Nominations and Internal Governance, a Remuneration and a Risk Committee have been set up.

3.1 Audit Committee

Overall Purpose / Objectives
The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities. In performing its duties, the Committee maintains effective working relationships with the Board of Directors, the Executive Management, the Internal Audit Function, the External Auditors and the Compliance Function.

Membership and Functioning

a) The Committee is appointed by the Board of Directors and consists of a minimum of three members.

b) The Chairperson of the Board of Directors cannot be a member of the Committee.

c) The Committee consists only of non-Executive members and more than fifty percent (50%) must be Independent members.

d) A quorum for any meeting, including a meeting conducted via teleconference, is 50% of its members rounded down plus 1.

e) Decisions are taken by a majority and in the event of a tie the Chairperson has a casting vote.

f) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.

g) The Bank's Secretary or his/ her nominee is the Secretary of the Committee.

h) At least one member of the Committee shall have sufficient experience and knowledge in Banking and financial matters.

i) It is also desirable that one member has sufficient knowledge on technology issues relevant to the activities of the Bank.

j) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

Audit Committee Chairperson

The Chairperson of the Committee:

a) Is appointed by the Board of Directors,
b) Must be independent and
c) Must have specialist knowledge and experience in the application of accounting principles and Internal Control processes.

Frequency of meetings and participation

a) The Committee meets at least once each quarter. Depending on the circumstances, additional meetings can be convened as required. Additional meetings of the Committee may be convened by the Chairperson of the Committee, any member of the Committee, the Internal Auditor or the External Auditor if they consider that this is necessary.

b) The Committee meets at least once a year with the External Auditors without the presence of the management or any other executive.

3.1 Audit Committee (continued)

Duties and Responsibilities

The Audit Committee has, amongst others, the following main duties and responsibilities:

a) Reviews and evaluates on an annual basis the adequacy and effectiveness of the Internal Control System as per the relative information provided by the Internal Audit Function, the findings and observations of the External Auditors and the Central Bank of Cyprus. On the basis of this review, it submits to the Board of Directors recommendations for addressing any weaknesses which have been identified and oversees the timely implementation of the corrective actions carried out by the Bank's competent Units/Departments,

b) Reviews the Bank's Annual Reports/ Statements on Internal Control and their compliance with the current guidance on Governance and Management Arrangements prior to their submission to the Board of Directors. In particular the Committee reviews:

   i. The Policies and overall process for identifying and assessing business risks and managing their impact on the Bank,
   ii. The reports submitted periodically by the Management, the Internal Audit and the External Auditors concerning control mechanisms and risk management,
   iii. The timeliness and effectiveness of corrective and/ or preventive measures taken by the Senior Management.

c) Considers whether, under the Legal and Regulatory requirements, any disclosures should be made for issues related with Internal Control Procedures,

d) Reviews and ensures that appropriate procedures are in place for identifying/ detecting fraud or misconduct,

e) Oversees the Bank's Internal Audit Function,

f) Oversees the Bank's Compliance Function,

g) Assesses and advises the Board of Directors, drawing on the work of the Compliance Function and External Auditors, on the adequacy and effectiveness of the Compliance Framework,

h) Submits proposals to the Board of Directors on the appointment, compensation, substitution or rotation of the External Auditors,

i) Enters into adequate dialogue with the External Auditor on the scope and timing of the audit to understand the issues of risk, information on the insurer's operating environment which is relevant to the audit, and any areas in which the Board of Directors may request for specific procedures to be carried out by the External Auditor, whether as part or extension of the audit engagement,

j) Reviews and considers the results of the external audit, its cost effectiveness and the audit fee,

k) Reviews, prior to its consideration by the Board of Directors, the External Auditor's report,

l) Reviews and discusses with the Management and/or the External Auditors any Preliminary Results, Interim Information and Annual Financial Statements.

3.1 Audit Committee (continued)

Composition and service of the members of the Audit Committee during 2016 until today

Composition of the Committee until 23/02/2017

Chairperson:		
George Stylianou	from 07/07/2008	Non-Executive, Independent
Members:		
Philippos Philis	from 21/01/2009	Non-Executive, Independent
Agis Taramides	from 21/03/2011	Non–Executive, Independent
Fransa Invest Bank Sal (represented by Mr. Mansour Bteish)	from 21/07/2015	Non-Executive, Non Independent
Henri Guillemin	from 20/11/2015	Non-Executive, Independent

Composition of the Committee after 23/02/2017

Chairperson:		
George Stylianou	from 07/07/2008	Non-Executive, Independent
Members:		
Philippos Philis	from 21/01/2009	Non-Executive, Independent
Agis Taramides	from 21/03/2011	Non–Executive, Independent
Fransa Invest Bank Sal (represented by Mr. Mansour Bteish)	from 21/07/2015	Non-Executive, Non Independent

During the year 2016 the Audit Committee met seven times.

3.2 Nominations and Internal Governance Committee

Overall Purpose / Objectives

The Committee has the responsibility of ensuring the Bank's compliance with the Bank's Internal Governance Policy and the relevant requirements of the Legal and Regulatory Framework.

The Committee, within the scope of its role and responsibilities, assists the Board of Directors in fulfilling its duties. In discharging its duties, the Committee maintains effective working relationships with the Board of Directors and its Committees, the Management, the Control Functions and the Human Resource Function.

The Committee also has the responsibility of overseeing the selection and appointment process to ensure that competent and suitable individuals are appointed on the Bank's Board of Directors. The Committee prepares and submits to the Board of Directors proposals for the appointment of the Executive and Non-Executive Board of Directors members.

Furthermore, the Committee closely cooperates with the relevant Board of Directors Committees for the review of the composition, authority and independence of the Bank's Control Functions.

3.2 Nominations and Internal Governance Committee (continued)

Membership and Functioning

a) The Committee is appointed by the Board of Directors and consists of a minimum of three members.
b) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members.
c) A quorum for any meeting, including a meeting conducted via teleconference, is 50% of its members rounded down plus 1.
d) Decisions shall be taken by a majority and in the event of a tie the Chairperson has a casting vote.
e) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.
f) The Bank's Secretary or his/ her nominee is the Secretary of the Committee.
g) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

Nominations and Internal Governance Committee Chairperson

The Chairperson of the Committee is appointed by the Board of Directors.

In the event that the Chairperson of the Board of Directors is also the Chairperson of the Nominations and Internal Governance Committee then he/ she may not participate in the process of appointing his or her successor.

Frequency of meetings and participation

The Committee meets at least once each year. Depending on the circumstances, additional meetings can be convened as required. An additional meeting of the Committee may be convened by the Chairperson of the Committee or any member of the Committee.

Duties and Responsibilities

The Committee has, amongst others, the following main duties and responsibilities:

a) Periodically reviewing the Policy of the Board of Directors for the selection and nomination of members of the Board of Directors.
b) Considering issues relating to succession planning and making recommendations to the Chairperson of the Board of Directors, at least once a year, for Board of Directors' succession over the longer term in order to maintain an appropriate balance of diversity, skills and experience and to ensure progressive renewal of the Board of Directors.
c) Preparing a description of the roles and capabilities for any vacancy, the profile of the potential candidates for the Board of Directors, including their academic and professional qualifications, their experience and abilities and also assessing the time commitment expected.
d) Identifying and nominating suitable candidates for the consideration and approval of the Board of Directors for filling up Board of Directors vacancies in a timely manner and aiming at ensuring smooth succession, in particular for the positions of the Chairperson and the Chief Executive Officer. The Committee's recommendations are based on the needs of the Board of Directors.
e) Assessing on an ongoing basis the independence of the Non-Executive and Independent members and whether there are any relationships or circumstances which are likely to affect, or could appear to be affecting a member's independence.
f) Contributing in the process carried out by the Audit Committee for the appointment or removal of the Heads of the Internal Audit Function and Compliance Function.
g) Contributing in the process carried out by the Risk Committee for the appointment or removal of the Heads of the Risk Management Function and Information Security Function.

Composition and service of the members of the Nominations and Internal Governance Committee during 2016 until today.

Chairperson:		
Ziyad Baroud	from 21/07/2015	Non-Executive, Independent
Members:		
Nadim Kassar	from 21/03/2011	Non-Executive, Non Independent
Agis Taramides	from 21/07/2015	Non-Executive, Independent
Henri Guillemin	from 20/11/2015	Non-Executive, Independent

During the year 2016, the Committee met eight times.

3.3 Remuneration Committee

Overall Purpose / Objectives

The Remuneration Committee assists the Board of Directors in determining and implementing the Bank's Remuneration Policy.

The Committee reviews regularly the remuneration of the Executive and Non-Executive Directors, the Senior Management and any other personnel whose duties may involve increased risk taking and ensures that these are in line with the culture, the strategic plans and objectives and the regulatory environment of the Bank.

Furthermore, in cooperation with the corresponding Board of Directors' Committees, the Committee also oversees the remuneration of the Heads of the Control Functions as a means of strengthening their independence.

In discharging its duties the Committee maintains effective working relationships with the Board of Directors, the Board of Directors Committees, the Control Functions and the Human Resource Function.

It is noted that salaries in the Bank are currently governed by the agreement between the Bank and the Employees' Union. However the Committee is alert at all times to ensure that remunerations are in line with the above objectives.

Membership and Functioning

a) The Committee is appointed by the Board of Directors and consists of at least three members.
b) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members,
c) A quorum for any meeting, including a meeting conducted via teleconference, is 50% of its members rounded down plus 1,
d) Decisions shall be taken by a majority and in the event of a tie the Chairperson has a casting vote.
e) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.
f) The Bank's Secretary or his/her nominee is the Secretary of the Committee.
g) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

Remuneration Committee Chairperson

The Chairperson of the Committee is appointed by the Board of Directors.

Frequency of meetings and participation

The Committee meets at least once each year. Additional meetings can be convened by the Chairperson of the Committee or any member of the Committee.

3.3 Remuneration Committee (continued)

Duties and Responsibilities

The Committee has, amongst others, the following main duties and responsibilities:

a) The Committee is responsible for the preparation of proposed decisions regarding remuneration, including those which have implications for the risk and risk management of the Bank and which are to be taken by the Board of Directors. When preparing the aforesaid proposed decision, the Committee takes into account the long-term interests of Members, investors and other stakeholders of the Bank and the public interest and ensures that:
   i. These are closely linked with the Bank's business objectives and strategies,
   ii. These are in line with the requirements set out in 'Part VI Remuneration Framework' of the Directive on Governance.

b) Non-Executive members are not included in the beneficiaries of performance-related remunerations.

c) Considers:
   i. The remuneration and other terms of service of Senior Executives,
   ii. Proposed compensation and settlement terms on loss of office for Executive Directors and Senior Management,
   iii. The pension consequences and associated costs to the Bank of basic salary increases and other changes in remuneration.

d) Reviews the employment contracts of the Executive members.

e) Submits to the Board of Directors recommendations concerning the Framework and level of remuneration of the Executive members. The remuneration must be sufficient so as to attract and maintain the Executives at the Bank's service,

f) Submits the proposals for the Director's remuneration, to the Board of Directors for its approval and subsequent presentation to and approval by the Members at an Annual General Meeting.

Composition and service of the members of the Remuneration Committee during 2016 until today

Composition of the Committee until 23/02/2017

Chairperson:		
George Galatariotis	from 21/03/2011	Non-Executive, Independent
Members:		
Maurice Sehnaoui	from 21/03/2011	Non-Executive, Non-Independent
Ziyad Baroud	from 21/07/2015	Non-Executive, Independent

Composition of the Committee after 23/02/2017

Chairperson:		
George Galatariotis	from 21/03/2011	Non-Executive, Independent
Members:		
Nadim Kasar	from 23/02/2017	Non-Executive, Non-Independent
Ziyad Baroud	from 21/07/2015	Non-Executive, Independent

During the year 2016, the Committee met five times.

3.4 Risk Committee

Overall Purpose / Objectives

The Risk Committee assists the Board in fulfilling its oversight responsibilities in risk management, hence the Committee members have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy, the risk appetite of the Bank and the Bank's Risk Management Framework.

In discharging its duties, the Committee maintains effective working relationships with the Board of Directors and Committees, the Management, the Risk Management Function, the Information Security Function and the External Auditors.

Membership and functioning

a) The Committee is appointed by the Board of Directors and consists of a minimum of three members who possess appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Bank.

b) The Committee consists only of Non-Executive members and more than fifty percent (50%) must be Independent members.

c) A quorum for any meeting, including a meeting conducted via teleconference, shall be 50% of its members rounded down plus 1.

d) Decisions shall be taken by a majority and in the event of a tie the Chairperson shall have a casting vote.

e) In the absence of the Chairperson for more than 5 minutes following the time set for a meeting, the members present may elect one of their number to chair the meeting.

f) The Bank's Secretary or his/ her nominee is the Secretary of the Committee.

g) The Board of Directors is authorized to replace any member or the Chairperson of the Committee during their service and fill in their vacant post.

Risk Committee Chairperson

The Chairperson of the Committee is appointed by the Board of Directors.

Frequency of meetings and participation

The Committee meets at least once each quarter. Additional meetings may be convened by the Chairperson of the Committee, any Member of the Committee, the Risk Manager or the External Auditor if they consider this necessary.

3.4 Risk Committee (continued)

Duties and Responsibilities

The Committee has, amongst others, the following main duties and responsibilities, without prejudice to the overall responsibility of the Board of Directors for risks:

a) Advises the Board of Directors on the Bank's overall current and future risk appetite and strategy, taking into account:
   i. The requirements set out in the Directive on Governance,
   ii. The financial and risk profile of the Bank and
   iii. The capacity of the Bank to manage and control risk.

b) Advises the Board of Directors on the determination of the principles which should govern the Management of risks.

c) Oversees the development of an Internal Risk Management Framework and its integration with the Bank's decision making process, covering the whole spectrum of the Bank's activities and units, as well as any subsidiaries.

d) Examines whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

e) Assesses the adequacy of and oversees the carrying out of the annual stress test and other scenarios to assess:
   i. Market risk,
   ii. Credit risk,
   iii. Liquidity risk and
   iv. Operational risk.

f) Assesses the various risks involved in the participation of the Bank in new markets, new companies or new operations and submits proposals to the Board of Directors.

g) Seeks and receives adequate reassurance that:
   i. The Senior Executive Management fully comprehends and applies the acceptable risk taking levels, as these have been defined by the Board of Directors,
   ii. That all affected employees comprehend and apply the risk taking and risk Management Policy and
   iii. That excessive risk-taking is not encouraged.

h) Oversees the Bank's Risk Management Function,

i) Oversees the Bank's Information Security Function.

j) Evaluates the quarterly reports submitted to it by the Risk Management Function and briefs the Board of Directors on the most important risks which have been assumed by the Bank.

k) Assesses, on an annual basis:
   i. The adequacy and effectiveness of the Risk Management Policy,
   ii. The appropriateness of the risk appetite and risk limits,
   iii. The adequacy of provisions and effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds adequate to cover the risks of the Institution,
   iv. The overall capital adequacy of own funds in relation to the size and nature of the risks undertaken,

l) Advises the Board of Directors, drawing on the work of the Audit Committee, risk Management Function and External Auditors, on the adequacy and effectiveness of the Risk Management Framework,

3.4 Risk Committee (continued)

Duties and Responsibilities (continued)

m) Advises the Board of Directors, drawing on the work of the Audit Committee, Information Security Function and External Auditors, on the adequacy and effectiveness of the Information Security Framework,

n) Advises the Board of Directors, drawing on the work of the Audit Committee, Risk Management Function and Information Security Function and External Auditors, on the adequacy and robustness of information and communication systems to:
   i. Enable identification, measurement, assessment and reporting of risk in a timely and accurate manner,
   ii. Ensure the adequate protection of the Bank's confidential and proprietary information,

o) Submits to the Board of Directors proposals and recommendations for corrective action, whenever weaknesses are identified in implementing the risk strategy,

p) Reviews whether prices of liabilities and assets offered to clients take fully into account the Bank's business model and risk strategy. In the event that they do not, the Committee presents a remedy plan to the Board of Directors.

Composition and service of the members of the Risk Committee during 2016 until today

Composition of the Committee until 23/02/2017

Chairperson:		
Philippos Philis	from 21/07/2015	Non-Executive, Independent
Members:		
George Galatariotis	from 21/03/2011	Non-Executive, Independent
Fransa Invest Bank Sal (represented by Mr. Mansour Bteish)	from 04/11/2011	Non-Executive, Non Independent
George Stylianou	from 21/07/2015	Non Executive, Independent
Nadim Kassar	from 20/11/2015	Non-Executive, Non-Independent

Composition of the Committee after 23/02/2017

Chairperson:		
Philippos Philis	from 21/07/2015	Non-Executive, Independent
Members:		
George Galatariotis	from 21/03/2011	Non-Executive, Independent
Fransa Invest Bank Sal (represented by Mr. Mansour Bteish)	from 04/11/2011	Non-Executive, Non Independent
George Stylianou	from 21/07/2015	Non Executive, Independent

During the year 2016, the Committee met seven times.

4. Report on Remuneration of Board of Directors and Senior Management

The Bank applies the provisions regarding the Remuneration of the Directors that are included in the Directive on Governance and its remuneration policy.

The remuneration of the members of the Board of Directors is analysed between remuneration as members of the Board of Directors and remuneration for their executive services. The analysis of the remuneration of the Board of Directors is presented in Note 35 of the audited financial statements for the year ended 31 December 2016.

Remuneration of the Non-Executive members of the Board

The Remuneration of the Non-Executive members of the Board includes fees for their participation as members in the Board of Directors of the Bank and also as members in the Committees of the Board of Directors.

Based on the existing policy of the Bank, the remuneration of the Non-Executive Directors is based on their responsibilities, time spent on meetings and their participation to the various Committees of the Board of Directors and is not connected with the profitability of the Bank.

Also, in accordance with the Articles of Association of the Bank, the members of the Board of Directors can claim the expenses incurred in relation to their attendance in meetings and in connection with the execution of the business of the Bank.

The revision of the remuneration of the Non-Executive Directors is authorised by the Members of the Bank at a General Meeting of the Bank.

During the Annual General Meeting of the Members of the Bank on the 26th of July 2016, a revision of the remuneration of the Non-Executive Directors was approved, with retrospective effect as from the 1st of August 2015.

As a result, during 2015 an additional amount of €71.954 had been recognised in the Income statement of the Bank as a provision in relation to the aforesaid increase in the Non-Executive Directors' remuneration.

Details in relation to the remuneration of the Non- Executive Directors for the years 2015 and 2016 are set out below.

Remuneration of the Non-Executive Members of the Board	2016	2015
	€	€
Maurice Sehnaoui	45.200	31.781
Nadim Kassar	37.100	8.491
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	33.200	11.003
Agis Taramides	30.000	10.846
George Galatariotis	29.500	11.495
George Stylianou	41.700	14.772
Philippos Philis	39.555	14.642
Ziyad Baroud (appointed on 21/07/2015)	28.400	4.306
Henri Guillemin (appointed on 20/11/2015)	30.600	1.312
Fransabank SAL represented by Mr. Adel Kassar (retired on 21/07/2015)	---	4.133
Nabil Kassar (retired on 21/07/2015)	---	5.832
Walid Daouk (retired on 21/07/2015)	---	8.607
Raoul Nehme (retired on 26/08/2015)	---	7.387
BLC Bank SAL represented by Mr. Youssef Eid (retired on 21/07/2015)	---	7.821
Tania Moussallem (retired on 21/07/2015)	---	4.303
	315.255	146.731

4. Report on Remuneration of Board of Directors and Senior Management (continued)

Remuneration of Executive Members of the Board

The salaries and other short-term benefits of the Executive members of the Board totalling €265K (2015: €265K) concern €163K (2015: €163K) for Mr. Andreas Theodorides and €102K (2015: €102K) for Mrs. Despo Polycarpou.

In accordance with the Remuneration policy of the Bank, the remuneration of the CEO is determined by the Board of Directors and the remuneration of any other Executive Directors is governed and determined by the Collective Agreement as applied to all other staff members of the Bank. No variable remuneration was determined for Executive members of the Board for the year 2016.

All Executive members of the Board of Directors receive the benefits determined by the collective Agreement, with the same terms applicable to all other staff members of the Bank. Note 6 of the audited financial statement for the year ended 31 December 2016, describes the main characteristics of the Staff Retirement Plan, provided in the Collective Agreement.

Remuneration of Senior Management

The Remuneration of the Senior Management, which includes the two Executive Directors and all Managers reporting directly to the Chief Executive Officer of the Bank, amounted in 2016 to €1.311.389 (2015 €1.360.036).

5. Loans and other transactions of the members of the Board of Directors

Details of the loans and other transactions of the members of the Board of Directors and their related parties for the year ended 31 December 2016 are set out in Note 35 of the audited financial statements. It is certified that all the transactions are conducted in the normal course of the Bank's business, on an arms' length basis and with transparency.

6. Investor Relations

All Members of the Bank are treated on an equal basis. The Bank, within the framework of providing the Members with timely information, announces its financial results.

The Board of Directors provide the opportunity to the Members of the Bank who represent at least 5% of the Bank's share capital to place items on the agenda of the General Meetings of the Members, in accordance with the procedures provided for by the Companies Act.

Any amendments or additions to the Memorandum and Articles of Association of the Bank are considered valid only by a special resolution at a meeting of the Members.

The Senior Independent Director Mr. George Stylianou is available to the Members of the Bank if they have concerns that have not been resolved through the normal communication channels.

Board of Directors
USB BANK PLC

31 May 2017

Board of Directors and Executives as at 31 May 2017

Board of Directors

Henri Guillemin	Non Executive Chairman
Nadim Kassar	Non Executive Vice-Chairman
Fransa Invest Bank SAL represented by Mr. Mansour Bteish	Non-Executive Member of the Board
Agis Taramides	Non-Executive Member of the Board
George Galatariotis	Non-Executive Member of the Board
George Stylianou	Non-Executive Member of the Board
Philippos Philis	Non-Executive Member of the Board
Ziyad Baroud	Non-Executive Member of the Board
Andreas Theodorides	Executive Member of the Board
Despo Polycarpou	Executive Member of the Board

At a Board of Directors meeting held on 23rd of February 2017 the Chairman of the Board of Directors, Mr. Maurice Sehnaoui announced his departure from the Board of Directors. On the same date, in view of Mr. Sehnaoui's departure, the Board of Directors elected Mr. Henri Guillemin, Independent member of the Board, as Chairman of the Board of Directors.

Secretary
Panayiota Charitonos

Chief Executive Officer
Andreas Theodorides

Finance Manager
Paola Ioannou

Registered Office
83 Digenis Akritas Avenue
5th floor
1070 Nicosia

Legal Advisors
Dr. Kypros Chrysostomides & Co LLC
L.Papafilippou & Co LLC

Independent Auditors
Deloitte Limited
Certified Public Accountants and Registered Auditors

The Board of Directors of USB Bank Plc (the 'Bank') submit to the shareholders their Report together with the audited consolidated financial statements for the year ended 31 December 2016.

Activities

The Bank's main activities during the year continued to be the provision of banking and financial services in Cyprus through 14 fully operated branches and 2 branches with ATM operations only.

Operating environment and Future developments

In March 2016 Cyprus exited the economic adjustment program utilising approximately €7,3 billion out of the €10 billion available funding from the European Stability Mechanism (ESM) and the International Monetary Fund (IMF). The country has been resilient following the financial crisis and has implemented tough austerity measures to restructure its economy.

Cyprus real GDP grew by 2,8% as per the Cyprus Statistical Service in 2016 compared to 1,7% growth for year 2015. The recovery in economic activity is broad based, with tourism and retail trade still being the main contributors to growth. Unemployment dropped to 13,3% during 2016 compared to an average unemployment rate of 14,9% for year 2015 as per the Cyprus Statistical Service. Tourist arrivals have recorded an increase of 19,8% during year 2016 compared to the prior year reaching the record high of 3,2 million tourist arrivals for the whole year of 2016 as per the Cyprus Statistical Service. In the property market, the residential property price index as per the Central Bank continued to decline year on year but at a slow pace.

Deposits in Cyprus Banks are continuing to grow, reflecting rising confidence in the Cypriot banking system. Following the significant fall in 2013 deposits stabilised in 2015 and grew by 6,6% in 2016 as per the Cyprus Central Bank.

Despite the important steps taken towards restoring the economic climate, downsize risks still remain associated with the high volume of non performing exposures, the loss of momentum in structural reforms and return of inflation.

A deteriorating external environment would also pose risks for an open economy like Cyprus. These would involve a slowdown of output growth in the UK and a further deterioration of the pound against euro resulting from the political and economic uncertainty following the Brexit vote and which are directly expected to affect the Cyprus economy through weaker exports mainly tourism services. Political uncertainty in Europe triggered by a British exit and/or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored in order to assess the potential prospects that are being developed.

Cyprus has an open free market service-based economy with a long record of successful economic performance. Though the economy is still tackling structural challenges, the strong business environment, highly educated workforce and favourable tax regime remain in place. Looking ahead, with measures to reform public spending, accelerate initiatives to boost investment, develop the investment fund sector and push forward with natural gas exploitation, there is scope for cautious optimism for Cyprus to return to prosperity.

All international credit rating agencies have upgraded the country's rating during 2016 and 2017 with S&P Global rating being BB+ stable, Moody's Investors Service being B1 positive and Fitch Ratings being BB- positive. The positive outlook reflects their view that they could upgrade Cyprus within the next 12 months if its reduction of high non performing loans accelerates, indicating a convergence of Cyprus' credit and monetary conditions.

Financial Results

The results of the Bank for the year ended 31st December 2016 are set out in the consolidated income statement on Page 30.

Summarising the key financial highlights for the year 2016 are as follows:

- Pre provision profitability of €9,7 million for year 2016 in relation to €9,4 million for year 2015
- Reduction in provisioning levels by 28% in relation to the prior year
- Reduction of net loss for year 2016 being €2,3 million in relation to a loss of €7,2 million for year 2015
- Increase in the Bank's deposits by €21 million from the year end of 2015; being €604 million as at year end 2016
- Enhancement of Banks capital base by €23 million in year 2016
- Total Capital Ratio at 14,27% as at year end of 2016
- Ample liquidity; with the regulatory euro liquidity ratio being 30% as at year end of 2016 and the net loans to deposits ratio at 54%

The Bank's operating profit for year 2016, excluding the one-off gain from the disposal of VISA Europe Limited, was reduced by €1,5 million in relation to the prior year amounting to €7,9 million for year 2016 mainly because of the reduction in the yields of the treasury operations and the limited investment opportunities with negative or low returns within the year.

Fees, commissions and foreign exchange income was decreased by 9% in relation to the previous year due to the lower volume of transactions and total operating expenses for the year 2016 were increased by approximately 4% mainly due to staff cost increase following the retrospective application of increased directors fees.

An amount of €0,6 million was recognized as a loss on revaluation of investment properties which were acquired by the Bank in settlement of customer debts.

In 2016 the provision charge for impairment losses to cover credit risk amounted to €12 million and decreased by €4,6 million compared to 2015 resulting to a net loss after provisions of €2,3 million for the year 2016 in relation to a loss of €7,2 million for year 2015.

Dividends

In 2016 and 2015 no dividends were paid or declared by the Bank since the Bank had accumulated losses. It should be noted that the Bank is currently under a regulatory dividend distribution prohibition.

Share capital

At the Annual General Meeting held on the 26th of July 2016 a resolution was approved to authorise and allot 115.000.000 new ordinary shares of nominal value €0,10 each at the issue price of €0,20 each (the "Issue") and the pre-emption rights of the existing Members of the Bank in relation to the said Issue be waived in accordance with the provisions of the Cyprus Companies Law Cap.113 (as amended) and that for the purpose of the issued share capital of the Bank the 115.000.000 new ordinary shares of nominal value of €0,10 were not offered to all of the Existing Members of the Bank on a pro rata basis but were issued and allotted at the issue price of €0,20 per share to BLC Bank SAL. The 115.000.000 new ordinary shares rank pari passu with the existing fully paid shares of the Bank.

Following the successful issue and allotment of 115.000.000 new ordinary shares to BLC Bank SAL, the issued share capital of the Bank amounts to €32.173.733 divided into 321.737.330 ordinary shares of nominal value of €0,10 each.

Capital management
The primary objective of the Bank's capital management is to ensure compliance with the relevant regulatory capital requirements and healthy capital adequacy ratios in order to support its business and maximize shareholder value.

Following the successful issue and allotment of the 115.000.000 new ordinary shares at the issue price of €0,20 per share, the Bank's capital base was enhanced by €23 million with the total capital ratio as at year end of 2016 being 14,27%.

Additional information on regulatory capital is disclosed in Note 34 to the consolidated financial statements.

Board of Directors
The Board of Directors at the date of this report is listed on page 25.

At a Board of Directors meeting held on 23rd of February 2017 the Chairman of the Board of Directors, Mr.Maurice Sehnaoui announced his departure from the Board of Directors. On the same date, in view of Mr.Sehnaoui's departure, the Board of Directors elected Mr.Henri Guillemin, Independent member of the Board, as Chairman of the Board of Directors.

Risk management
The Bank considers risk management to be a major process and a significant factor contributing towards the safeguarding of a stable return to its shareholders. The financial risks that the Bank is exposed to are mainly credit risk, operational risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 33 to the consolidated financial statements.

Related party transactions
The related party transactions of the Bank are disclosed in Note 35 to the consolidated financial statements.

Events after the reporting date
Any significant events that occurred after the reporting date are described in Note 39 to the consolidated financial statements.

Independent auditors
The independent auditors of the Bank, Deloitte Limited, have expressed their willingness to continue in office. A resolution for the election of the Bank's independent auditors and their remuneration will be proposed at the shareholders' Annual General Meeting.

On behalf of the Board of Directors,

Henri Guillemin
Chairman
31 May 2017

Consolidated Income Statement
for the year ended 31 December 2016

	Note	2016 €	2015 €
Turnover		**35.219.617**	39.857.983
Interest income	4	**32.357.664**	36.925.281
Interest expense	5	**(7.978.212)**	(10.843.610)
Net interest income		**24.379.452**	26.081.671
Fee and commission income	7	**2.022.382**	2.249.563
Fee and commission expense	7	**(434.028)**	(480.505)
Foreign exchange income		**256.787**	265.040
Other income		**582.784**	418.099
Realised gain from disposal of Available for Sale investments	14	**1.854.093**	-
Total net income		**28.661.470**	28.533.868
Staff costs	6	**(11.713.457)**	(11.092.897)
Depreciation and amortisation	18,19	**(920.288)**	(877.826)
Other operating expenses	8	**(5.743.064)**	(5.755.043)
Total operating expenses before provisions		**(18.376.809)**	(17.725.766)
Loss on revaluation of investment properties	17	**(571.549)**	(1.434.767)
Profit from operations before provisions for impairment of loans and advances		**9.713.112**	9.373.335
Provision for impairment of loans and advances	13	**(12.009.774)**	(16.613.345)
Loss before tax		**(2.296.662)**	(7.240.010)
Deferred tax	9	**(3.263)**	43.205
Loss for the year		**(2.299.925)**	(7.196.805)
Attributable to:			
Owners of the Bank		**(2.332.901)**	(7.248.268)
Non-controlling interests		**32.976**	51.463
Loss for the year		**(2.299.925)**	(7.196.805)
Loss per share attributable to the owners of the Bank (cent)	10	**(0,9)**	(3,8)

Consolidated Statement of Conprehensive Income
for the year ended 31 December 2016

	Note	2016 €	2015 €
Loss for the year		**(2.299.925)**	(7.196.805)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available for sale investments			
Gain on revaluation of investments available for sale	24	**4.535.971**	1.739.272
		4.535.971	1.739.272
Items that will not be reclassified subsequently to profit or loss			
Property revaluation			
Gain on revaluation of properties	24	**290.689**	113.791
Taxation on revaluation of properties	24	**(128.482)**	(9.677)
		162.207	104.114
Other comprehensive income for the year after taxation		**4.698.178**	1.843.386
Total comprehensive income for the year		**2.398.253**	(5.353.419)
Attributable to:			
Owners of the Bank		**2.340.708**	(5.433.318)
Non-controlling interests		**57.545**	79.899
Total comprehensive income for the year		**2.398.253**	(5.353.419)

Consolidated Statement of Financial Position

as at 31 December 2016

	Note	2016 €	2015 €
ASSETS			
Cash and balances with the Central Bank	11	**67.337.327**	20.158.901
Placements with banks	12	**23.812.851**	48.297.554
Loans and advances to customers	13	**325.488.473**	354.592.363
Investments available for sale	14	**185.830.125**	1.739.272
Investments held-to-maturity	15	**-**	157.258.965
Stock of property	16	**59.133.983**	-
Investment properties	17	**11.951.027**	47.031.030
Property and equipment	18	**9.747.490**	9.592.950
Intangible assets	19	**620.241**	552.846
Other assets	20	**2.828.182**	2.891.035
Total assets		**686.749.699**	642.114.916
LIABILITIES			
Deposits by banks		**1.501.206**	-
Customer deposits	21	**603.544.238**	582.723.906
Other liabilities	22	**9.214.522**	12.299.530
Total liabilities		**614.259.966**	595.023.43
EQUITY			
Share capital	23	**32.173.733**	20.673.733
Share premium	23	**55.620.065**	44.120.065
Revaluation reserves	24	**9.792.458**	5.118.849
Accumulated losses	25	**(28.178.225)**	(25.845.324)
Equity attributable to the owners of the Bank		**69.408.031**	44.067.323
Non-controlling interests		**3.081.702**	3.024.157
Total equity		**72.489.733**	47.091.480
Total liabilities and equity		**686.749.699**	642.114.916

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

	Attributable to the owners of the Bank							
	Share capital (Note 23)	**Share premium** (Note 23)	**Special reserve**	**Revaluation reserves** (Note 24)	**Accumulated losses** (Note 25)	**Total**	**Non-controlling Interests**	**Total Equity**
	€	€	€	€	€	€	€	€
YEAR 2016								
1 January	**20.673.733**	**44.120.065**	**-**	**5.118.849**	**(25.845.324)**	**44.067.323**	**3.024.157**	**47.091.480**
Issue of shares	11.500.000	11.500.000	-	-	-	23.000.000	-	23.000.000
(Loss)/profit after tax	-	-	-	-	(2.332.901)	(2.332.901)	32.976	(2.299.925)
Other comprehensive income for the year after taxation	-	-	-	4.673.609	-	4.673.609	24.569	4.698.178
Total comprehensive income for the year	-	-	-	4.673.609	(2.332.901)	2.340.708	57.545	2.398.253
31 December	**32.173.733**	**55.620.065**	**-**	**9.792.458**	**(28.178.225)**	**69.408.031**	**3.081.702**	**72.489.733**
YEAR 2015								
1 January	16.593.733	38.000.065	10.200.000	3.303.899	(18.597.056)	49.500.641	-	49.500.641
Acquisition of subsidiary	-	-	-	-	-	-	2.944.258	2.944.258
Issue of shares	4.080.000	6.120.000	(10.200.000)	-	-	-	-	-
(Loss)/profit after tax	-	-	-	-	(7.248.268)	(7.248.268)	51.463	(7.196.805)
Other comprehensive income for the year after taxation	-	-	-	1.814.950	-	1.814.950	28.436	1.843.386
Total comprehensive income for the year	-	-	-	1.814.950	(7.248.268)	(5.433.318)	79.899	(5.353.419)
31 December	20.673.733	44.120.065	-	5.118.849	(25.845.324)	44.067.323	3.024.157	47.091.480

	Note	2016	2015
	€	€	
Net cash flow from/(used in) operating activities	**31**	**16.476.462**	(22.470.568)
Cash flow used in investing activities			
Purchase of property, equipment and software		**(860.192)**	(1.196.059)
Proceeds from the disposal of property and equipment		**3.700**	-
Purchase of investment property		**(20.693)**	(1.127.130)
Purchase of bonds		**(157.953.311)**	(139.623.622)
Proceeds from maturities of bonds		**136.160.000**	83.213.902
Proceeds from the disposal of Available for Sale investments		**1.854.093**	-
Interest from bonds		**4.308.520**	5.694.353
Net cash flow used in investing activities		**(16.507.883)**	(53.038.556)
Cash flow from/(used in) financing activities			
Proceeds from contribution of the parent company		**23.000.000**	-
Redemption of loan capital		**-**	(10.182.963)
Interest on loan capital		**-**	(436.355)
Net cash flow from/(used in) financing activities		**23.000.000**	(10.619.318)
Net increase/(decrease) in cash and cash equivalents for the year		**22.968.579**	(86.128.442)
Cash and cash equivalents			
At 1 January		**64.819.908**	150.948.350
Net increase/(decrease) in cash and cash equivalents		**22.968.579**	(86.128.442)
At 31 December	32	**87.788.487**	64.819.908

1. Corporate information

The financial statements of USB Bank Plc (the 'Bank') for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the Board of Directors on 31 May 2017.

The Bank's main activity during the year continued to be the provision of banking and financial services in Cyprus.

The Bank was incorporated in Cyprus as a limited liability company with registration number 10 in 1925 under the Cyprus Companies Law. The registered office of the Bank is at 83, Digenis Akritas Avenue, 1070 Nicosia.

2. Significant accounting policies

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

2.1. Basis of preparation

The Financial Statements have been prepared on a going concern basis.

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

The financial statements are presented in Euro (€) and have been prepared on a historical cost basis, except for freehold properties, investment properties and investments available-for-sale which are measured at fair value and stock of properties measured at net realisable value where this is lower than cost.

The Bank presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding the expected recovery or settlement of any asset and liability within 12 months after the reporting date and more than 12 months after the reporting date is presented in Note 28.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Bank's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2.2. Adoption of new and revised IFRSs

In the current year, the Bank has adopted all the new and revised standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2016. The adoption of these Standards did not have a material effect on the consolidated financial statements of the Bank.

2.3. Standards, Interpretations and Amendments that are issued but not yet effective

Up to the date of approval of the financial statements, the International Accounting Standards Board has published certain new standards, interpretations and amendments to existing standards, the adoption of which is not mandatory for the current reporting period and which the Bank has not adopted early, as follows:

2. Significant accounting policies (continued)

2.3. Standards, Interpretations and Amendments that are issued but not yet effective (continued)

a) Standards and interpretations issued by the IASB and adopted by the EU

Standard/ Interpretation	Effective for annual periods beginning on or after:
IFRS 9 "Financial Instruments"	1 January 2018
IFRS 15 "Revenue from Contract with Customers"	1 January 2018

b) Standards and interpretations issued by the IASB not yet adopted by the EU

Standard/ Interpretation	Effective for annual periods beginning on or after:
IFRS 16 "Leases"	1 January 2019
Amendments to IAS 7: Disclosure Initiative.	1 January 2017
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017
Clarifications to IFRS 15 "Revenue from Contract with Customers"	1 January 2018
Amendments to IAS 40: Transfers of Investment Property	1 January 2018
Annual Improvements to IFRSs 2014-2016 Cycle.	1 January 2017 / 1 January 2018
IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred Indefinitely

The Bank is in the process of evaluating the effect that the adoption of the above standards will have on the consolidated financial statements of the Bank, and it does not intend to early adopt any of them. The Bank expects that the most significant impact will result from the below new standards that have been issued but are not yet effective:

IFRS 9 "Financial Instruments"
IFRS 9 (as revised in 2014) will supersede IAS 39 'Financial Instruments: Recognition and Measurement' in its entirety. The completed IFRS 9 contains the requirements for a) classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

Classification and measurement
All recognized financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortized cost or fair value. Specifically:

- a debt instrument that is held within a business model whose objective is to collect the contractual cash flows and has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortized cost (net of any write down for impairment) unless the asset is designated at fair value through profit and loss (FVTPL) under the fair value option.
- a debt instrument that is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.

2. Significant accounting policies (continued)

2.3. Standards, Interpretations and Amendments that are issued but not yet effective (continued)

IFRS 9 "Financial Instruments" (continued)

Classification and measurement (continued)

- all other debt instruments must be measured at FVTPL
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognized in profit and loss except that if an equity instrument is not held for trading, nor contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies, an irrevocable election can be made at initial recognition to measure the investment at FVOCI, with dividend income recognized in profit and loss.

Regarding financial liabilities, one major change is in the presentation of changes in the fair value of the financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9 such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit and loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit and loss.

Impairment

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, lease receivables, certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of commitments and guarantees) is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (Stage 1- 12 month ECL). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (Stage 2 - lifetime ECL).

The assessment of whether credit risk has increased significantly since initial recognition is performed for each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument under a range of possible future economic scenarios.

Transition

The classification, measurement and impairment requirements are applied retrospectively by adjusting the balance sheet at the date of initial application, with no requirement to restate comparative periods. Hedge accounting is generally applied prospectively from that date.

IFRS 9 implementation project

An IFRS 9 action plan and implementation project is currently under way by the Bank. The whole procedure is coordinated by the Risk Manager and the Finance Manager of the Bank.

The project covers all aspects of IFRS 9 but the majority of the effort is consumed in the development of methodologies for the calculation of impairment of customer loans and advances based on expected credit losses, since IFRS 9 moves away from the current incurred loss model to an expected credit loss model, which requires more judgment in considering information for current and future provisioning. The expected credit losses model will result in earlier recognition of credit losses and thus a higher provision charge because it includes not only credit losses already incurred, but also losses that are expected in the future. The credit loss expense is also likely to be more volatile as expectations of future economic conditions and judgements may change. It is also expected that there will be movements between the three stages stipulated by the standard and, thus, further volatility in the provisioning charge. The assessment of the impact of IFRS9 is ongoing and may significantly change upon its full application reflecting business models and balance sheet dynamics at the time, therefore making it not practical to quantify any potential effect at present.

Changes in business models or policies, including as a result of choices made by the Bank, could have a material adverse effect on the Bank's reported results of operations and financial condition and may have a corresponding material adverse effect on capital ratios. It shall be noted that the European Commission and the European Banking Authority are currently proposing a gradual phase-in implementation of IFRS9 for regulatory capital purposes. The Bank will disclose reliable financial impact estimates once it is practicable, which will be no later than in the Consolidated Financial Statements of 2017.

2. Significant accounting policies (continued)

2.3. Standards, Interpretations and Amendments that are issued but not yet effective (continued)
IFRS 15 "Revenue from Contracts with Customers"
The new standard establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede IAS 18 Revenue, IAS 11 Construction Contracts, IFRIC 13 Customer Loyalty Programs, IFRIC 15 Agreement for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue Barter Transactions Involving Advertising Services. The new standard has a single model to deal with revenue from customers and unlike the scope of IAS 18, the recognition of interest and dividend income is no longer addressed by IFRS 15, instead it is within the scope of IAS 39 (or IFRS 9 once adopted). The adoption of this standard is not expected to have a material effect on the Consolidated Financial Statements of the Bank.

IFRS 16 "Leases"
IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The Bank is currently evaluating the impact of the standard on its Financial Statements.

2.4 Basis of consolidation
The consolidated financial statements comprise the consolidated financial statements of the Bank as at and for the year ended 31 December 2016. The financial statements of the subsidiaries are prepared as of the same reporting date as that of the Bank, using consistent accounting policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Bank controls an investee if, and only if, the Bank has:

- Power over an investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

The Bank re-assesses whether or not it controls an investee if facts indicate that there are changes to any of the three elements of control.

Assets, liabilities, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal, respectively.

Profit or loss and each component of Other Comprehensive Income are attributed to the equity holders of the Bank and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Non-controlling interests represent the portion of profit or loss and net assets not held by the Bank, directly or indirectly. The non-controlling interests are presented separately in the consolidated income statement and within equity from the Company owners' equity.

All intra-group balances and transactions are eliminated on consolidation.

2.5 Business combinations
Business combinations are accounted for using the purchase method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination the Bank elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Any excess of the cost of acquisition over the Bank's share of the fair values of the identifiable net assets acquired, is recognised as goodwill on the consolidated statement of financial position.

Where the Bank's share of the fair values of the identifiable net assets are greater than the cost of acquisition (i.e. negative goodwill), the difference is recognised directly in the consolidated income statement in the year of acquisition. Acquisition related costs are expensed as incurred and included in other operating expenses.

2. Significant accounting policies (continued)

2.5 Business combinations(continued)
If the business combination is achieved in stages, the previously held equity interest is remeasured at fair value and any resulting gain or loss is recognised in the consolidated income statement.

When the Bank acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

2.6. Foreign currency translation
The financial statements are presented in Euro (€), which is the functional and presentation currency of the Bank.

Transactions in foreign currencies are initially recognised by applying the amount of foreign currency at the current exchange rate between the functional currency and the foreign currency at the transaction date. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are shown in 'Foreign exchange income' in the consolidated income statement.
Non-monetary items that are measured at historic cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

2.7. Turnover
Turnover consists of interest income, fee and commission income, foreign exchange income and other income.

2.8. Revenue recognition
Revenue is recognised when it is probable that economic benefits will flow to the Bank and the amount of revenue can be reliably measured.

2.9. Interest income and expense
For all financial assets and financial liabilities measured at amortised cost, interest income and expenses are recognised using the effective interest rate method. Interest income is recognised on the recoverable portion of impaired loans using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instruments, or where appropriate a shorter period, to the carrying amount of the financial instruments. Interest income is recognised on the recoverable portion of impaired loans.

2.10. Fee and commission income
Fee and commission income is generally recognised on the basis of work done so as to match the cost of providing the service, whereas fees and commissions in respect of loans and advances are recognised using the effective interest rate method as part of interest income.

2.11. Dividend income
Dividend income is recognised in consolidated income statement when the Bank's right to receive payment is established.

2. Significant accounting policies (continued)

2.12. Gain from the disposal of investment property
Gains on disposal of these properties is recognised in the consolidated income statement under 'Gains from disposal of investment properties' when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.13. Gain from the disposal of stock of property
Net gains on disposal of stock of property are recognised in the consolidated income statement when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.14. Leases
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Bank is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as part of interest expense in the consolidated income statement.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Bank will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised in 'Other operating expenses' in the consolidated income statement on a straight-line basis over the lease term.

2.15. Employee benefits
The Bank operates a defined contribution scheme which provides for employer contributions on the employee gross salary and employee contributions of 3%-10% of their gross salary. The Company's contributions are expensed incurred and are included in staff costs. The Company has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

2.16. Financial Instruments

2.16.1. Date of recognition
Purchases or sales of financial assets, where delivery is required within a time frame established by regulations or by market convention, are recognised on the trade date, i.e. the date that the Bank commits to purchase or sell the asset. 'Deposits with Central Bank of Cyprus', 'Deposits by banks', 'Customer deposits and other accounts', 'Placements with Banks', and 'Loans and advances to customers' are recognised when cash is received by the Bank or advanced to counterparties.

2.16.2. Initial recognition and measurement of financial instruments
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and liabilities not measured at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

2.16.3. Loans and advances to customers
Loans and advances to customers are financial assets with fixed or determinable payments that are not quoted in an active market.

After initial recognition, loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortised cost is calculated taking into consideration the difference between the initial amount and the payable amount at maturity and all emoluments that comprise integral part of the effective interest. Amortisation is included in 'Interest Income' in consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in 'Provisions for impairment of loans and advances'.

2. Significant accounting policies (continued)

2.16.3. Loans and advances to customers (continued)

Renegotiated loans

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified, such that the renegotiated loan is substantially a different financial instrument.

2.16.4. Investments

Management determines the appropriate classification of investments at the time of purchase.

2.16.4.1. Investments held-to-maturity

Held-to-maturity investments are those which carry fixed or determinable payments and have fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method.

Amortised cost is calculated by taking into consideration the difference between the original amount and the amount payable on maturity, and all fees that are an integral part of the effective interest rate. Amortisation is included in 'Interest income' in the consolidated income statement. Losses arising from impairment of such investments are recognised in 'Losses from revaluation, sale and impairment of financial instruments' in the consolidated income statement.

2.16.4.2. Impairment of investments held-to-maturity

For investments classified as held-to-maturity or loans and receivables, the Bank assesses at each reporting date whether there is objective evidence that they have suffered an impairment loss. If there is objective evidence that an impairment loss exists, the amount of the loss is measured as the difference between the book value of the asset and the present value of estimated future cash flows (excluding future credit losses that have occurred). The book value of the asset is reduced and the amount of loss is recognised in the consolidated income statement.

2.16.4.3. Investments available-for-sale

Available-for-sale investments are those which are designated as such or do not qualify to be classified as 'Investments at fair value through profit or loss', 'Investments held-to-maturity' or 'Loans and receivables'. These investments can be sold in response to changes in market risks or liquidity requirements and include equity securities and debt securities.

After initial recognition, available-for-sale investments are measured at fair value. Unrealised gains and losses from changes in fair value are recognised directly in equity in the 'Revaluation reserve of available-for-sale investments'. When the investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in 'Net gains on available for sale investments'. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a weighted average cost basis. Interest income from available-for-sale debt securities is recorded as 'Interest income' using the effective interest rate method. Dividend income from available-for-sale equity securities is recognised in the consolidated income statement in 'Other income' when the right to receive payment has been established. Impairment losses on available-for-sale investments are recognised in the consolidated income statement in 'Losses from sale, revaluation and impairment of financial instruments'.

Available for sale investments are measured at fair value, based on market prices for listed securities.

For investments available for sale, the Bank assess at each reporting date whether there is objective evidence that they have suffered an impairment loss.

In case of equity securities classified as available for sale, objective evidence includes a significant or prolonged decline in fair value below cost. Where there is objective evidence that an impairment loss exists, the amount of total loss - measured as the difference between the acquisition cost and current fair value less the impairment loss of investment, previously recognised in profit or loss - is removed from the 'investment revaluation reserve' and recognised in the 'Income from available for sale investments' in the consolidated income statement. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment, are recognised in the 'investment revaluation reserve' in equity.

In case of debt securities classified as available for sale, the assessment for impairment is based on the same criteria as those applicable to investments held-to maturity carried at amortised cost. If at a later period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the recognition of impairment, the impairment loss previously recognised is reversed in 'Losses from sale, revaluation and impairment of financial instruments' through the consolidated income statement.

2. Significant accounting policies (continued)

2.16.5. Deposits
Deposits are initially measured at the fair value of the consideration received, net of any issue costs. They are subsequently measured at amortised cost using the effective yield method.

2.17. Derecognition of financial assets and financial liabilities

2.17.1. Financial assets
A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, or (b) the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full to a third party and has either (a) transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.17.2. Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

2.18. Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Bank has a current legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.19. Share capital
Any difference between the nominal value and the issue price of the share capital is recognised as share premium. Issue costs incurred in the process of share capital increase are deducted from equity.

2.20. Property, equipment and computer software
Owner-occupied property is property used by the Bank for use in the supply of services or for administrative purposes. Owner-occupied property is initially measured at cost and subsequently measured at fair value less accumulated depreciation and impairment. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be using the fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognised in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to consolidated income statement to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Fixtures, equipment and computer software are stated as historic cost less accumulated depreciation.

Depreciation on leasehold improvements, furniture and fittings, equipment, computer software and hardware and motor vehicles is calculated on the basis of cost less estimated residual value on a straight-line basis over the expected useful economic lives of the assets, commencing from the month of acquisition.

The annual depreciation rates for the year were as follows:

	%
Buildings	4
Building held under finance lease	2
Leasehold improvements	10
Furniture and fittings	10
Office equipment	20
Computer hardware	20-33
Computer software	25
Motor Vehicles	20

2. Significant accounting policies (continued)

2.20. Property, equipment and computer software (continued)
Land is not depreciated. Improvement to leasehold property is stated at cost less accumulated depreciation.

Leasehold improvements are amortised over a period of 10 years or over the lease period if this period is less than 10 years.

Any profits or losses arising from the disposal of property, plant and equipment are transferred to the consolidated income statement in the year of disposal.

The carrying values of property, equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If there is such an indication and the carrying value exceeds the recoverable amount, the assets are written down to their recoverable amount through the consolidated income statement.

2.21. Investment properties
Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from owner-occupied property to investment property, the Bank accounts for such property in accordance with the policy described in Note 2.20 'Property, equipment and computer software' up to the date of change in use. For a transfer from investment property to stock of property, the property's deemed cost for subsequent accounting is its fair value at the date of change in use.

2.22. Stock of property
The Bank in its normal course of business acquires properties in debt satisfaction, which are held either directly or by entities set up and controlled by the Bank for the sole purpose of managing these properties with an intention to be disposed of. These properties are recognised in the Bank's consolidated financial statements as stock of property, reflecting the substance of these transactions.

The stock of property is measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price, less the estimated costs necessary to make the sale. If net realisable value is below the cost of the stock of property, impairment is recognised in 'Impairment of non-financial instruments' in the consolidated income statement

2.23. Provisions for pending litigation or claims
Provisions for pending litigation or claims against the Bank are made when: (a) the Bank has a present obligation (legal or constructive) arising from past events, (b) it is probable that the settlement of the obligation is expected to result in an outflow of resources embodying economic benefits, and (c) a reliable estimate of the amount of the obligation can be made.

2.24. Taxation
Taxation on income is provided in accordance with the provisions of the Income Tax Law and is recognised as an expense in the period in which the income arises. Deferred tax is calculated using the liability method.

Deferred income tax liabilities are recognised for all taxable temporary differences between the tax basis of assets and liabilities and their carrying amounts at the balance sheet date for financial reporting purposes, which will result in taxable amounts in future periods.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised. The carrying amount of deferred income tax assets is reviewed at each reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred income tax assets to be utilised.

2. Significant accounting policies (continued)

2.24. Taxation (continued)
Deferred income tax assets and liabilities are measured at the amount expected to be paid to the tax authorities (or recovered from them), using tax rates expected to apply in the period in which the requirement will be realised or the liability will be settled. Current and deferred tax assets and liabilities are offset when they arise from the same tax reporting entity and relate to the same tax authority and when the legal right to offset exists.

2.25. Cash and cash equivalents
Cash and cash equivalents for the purpose of the Consolidated Statement of Cash Flows represents cash, non-obligatory deposits with the Central Bank of Cyprus and placements with banks.

2.26. Financial guarantees
The Bank issues financial guarantees to its customers, consisting mainly of letters of credit for imports/ exports and other letters of guarantee. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities' in the consolidated statement of financial position. Subsequently, the Bank's liabilities under each financial guarantee is measured at the higher of: (a) the amount initially recognised reduced by the cumulative amortised premium which is periodically recognised in the consolidated income statement in 'Fee and commission income' in accordance with the terms of the guarantee, and (b) the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

2.27. Segmental analysis
According to IFRS 8, the analysis per segment is based on the information used for internal reporting to management. The Bank operates in a single segment as it only provides banking services, its activities are provided in Cyprus and information is provided to management on this basis. Therefore, the information provided in the consolidated financial statements relates to the overall operations of the Bank.

2.28. Comparatives
Comparatives presented in the financial statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

3. Significant accounting estimates and judgments

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1. Going concern
The Bank's management believes that the Bank is taking all necessary measures to maintain its viability and the development of its business in the current economic environment.

In assessing the Bank's ability to continue as a going concern the following conditions were taken into consideration: the risk management as set out in Note 33, the capital adequacy as set out in Note 34 and the operating environment as set out in Note 38.

3.2. Provision for impairment of loans and advances
The Bank reviews its loans and advances to customers to assess whether a provision for impairment should be recorded in the consolidated income statement. In particular, management is required to estimate the amount and timing of future cash flows in order to determine the amount of provision required and as a result the calculation of the impairment allowance involves the use of judgment. Such estimates are based on assumptions about a number of factors and therefore actual impairment losses may differ.

The carrying amount of the loan is reduced through the use of a provision account and the amount of the loss is recognised in the consolidated income statement. Loans together with the associated provisions are written off when there is no realistic prospect of future recovery. Partial write-offs, including non-contractual write-offs, may also occur when it is considered that there is no realistic prospect for the recovery of the contractual cash flows. In addition, write-offs may reflect restructuring activity with customers who are subject to the terms of the agreement and satisfactory performance.

3. Significant accounting estimates and judgments (continued)

3.2. Provision for impairment of loans and advances (continued)
The Bank may change certain estimates from period to period, however it is impracticable to estimate the effect of such individual estimates due to interdependencies between estimates and as the profile of the population of loans changes from period to period.

A very important factor for the estimation of provisions is the timing and net recoverable amount from foreclosure of collaterals that 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 the collateral and for taxes and expenses on the repossession and subsequent sale of the collateral. 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 in accordance with the Loan Impairment and Provisioning Procedures Directives of 2014 and 2016 of the Central Bank of Cyprus. The timing of recovery from real estate collaterals has been estimated to be on average 3 years.

The average liquidity haircut and selling expenses used in the provisions calculation is 14,25% of the projected market value of the property collaterals at the time of their liquidation.

Any changes in these assumptions or difference between assumptions made and actual results could result in significant changes of required provisions for impairment of loans and advances.

For individually significant assets, impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account (for example, the business prospects for the customer, the realisable value of collateral, the Bank's position relative to other claimants, the reliability of customer information and the likely cost and duration of the work-out process). The level of the impairment allowance is the difference between the present value of future cash flows (discounted at the loan's original effective interest rate), and its carrying amount. Subjective judgments are made in the calculation of future cash flows.

Furthermore, judgments change with time as new information becomes available or as work-out strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairment charge.

In addition to provisions for impairment on an individual basis, the Bank also makes collective impairment provisions. The Bank adopts a formulaic approach for collective provisions, which includes assigning probabilities of default and loss given default for portfolios of loans. This methodology is subject to estimation uncertainty, partly because of the absence of detailed individual assessment of the cash repayment particularities surrounding each exposure, due to the large number of exposures in each portfolio.

The total amount of the Bank's provision for impairment of loans and advances is inherently uncertain because it is highly sensitive to changes in economic and credit conditions which are influenced by many factors. The methodology and the assumptions used in calculating impairment losses are reviewed regularly. It is possible that the actual results within the next financial year could be different from the assumptions made, resulting in a material adjustment to the carrying amount of loans and advances.

Further details on impairment allowances and related credit information are set out in Note 13 and Note 33.

3.3. Tax
The Bank is subject to Cyprus income tax. Significant estimates are required in determining the provision for taxes at the reporting date, and therefore the tax determination is uncertain. Where the final tax is different from the amounts that were initially recorded, such differences will affect the income tax expense, the tax liabilities and deferred tax liabilities of the period in which the final tax is agreed with the tax authorities.

The Bank recognises a deferred tax asset in relation to tax losses, to the extent that it is probable that future taxable profits will be available against which the losses can be utilised. The determination of the amount of deferred tax assets that can be recognised is based on the timing and level of future taxable profits, in combination with future tax planning strategies. These variables are determined based on significant estimates and assumptions, and are by definition uncertain. It is possible that the actual conditions in the future will be different from the assumptions used, resulting in material adjustments to the carrying value of deferred tax assets.

3. Significant accounting estimates and judgments (continued)

3.4. Fair value of investments
The best evidence of fair value is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The valuation techniques employed by the Bank use only observable market data and so the reliability of the fair value measurement is relatively high.

Valuation techniques used to calculate fair values include comparisons with similar financial instruments for which market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Valuation techniques incorporate assumptions that other market participants would use in their valuations, including assumptions about interest rate yield curves, exchange rates, volatilities and default rates. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared.

Further details on the fair value of assets and liabilities are disclosed in Note 26.

3.5. Classification of properties
The Bank determines whether a property is classified as investment property or stock of property as follows:

- Investment properties comprise land and buildings that are not occupied for own use by, or in the operations of, the Bank, nor for sale in the ordinary course of business, but are held primarily to earn rental income and/or capital appreciation. These buildings are substantially rented to tenants and not intended to be sold in the ordinary course of business.
- Stock of property comprises real estate assets held with an intention to be disposed of. This principally relates to properties acquired through debt-for-property swaps. The Bank has set up the Real Estate department early in 2016, to manage these assets (including selective investments and development) and to execute exit strategies in order to monetise these assets.

3.6. Fair value of properties held for own use and investment properties

The Bank's accounting policy for property held for own use, as well as for investment property requires that it is measured at fair value. In the case of property held for own use, valuations are carried out sufficient regularity so that the carrying value is not materially different from the fair value, whereas in the case of investment properties, the fair value is established at each reporting date. Valuations are carried out by 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 used their market knowledge and professional judgement and did not rely solely on historical transactional comparables, taking into consideration that there is a greater degree of uncertainty than that which exists 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.

3.7. Stock of property – estimation of net realisable value
Stock of property is measured at the lower of cost and net realisable value. The net realisable value is determined with reference to the fair value of properties adjusted for any impact of specific circumstances on the sale process of each property. Depending on the value of the underlying asset and available market information, the determination of costs to sell may require professional judgement which involves a large degree of uncertainly due to the relatively low level of market activity.

4. Interest income

	2016 €	2015 €
Loans and advances to customers	**27.942.301**	31.024.874
Placements with banks and with the Central Bank	**106.843**	206.054
Investments	**4.308.520**	5.694.353
	32.357.664	36.925.281

Interest income from loans and advances to customers includes interest on the recoverable amount of the impaired loans and advances amounting to €10.427.793 (2015: €9.223.245).

5. Interest expense

	2016 €	2015 €
Customer deposits	**7.485.537**	10.157.360
Placements with Central Bank of Cyprus	**196.496**	54.198
Loan capital	**-**	436.355
Deposits by banks	**13.767**	-
Other financial instruments	**282.412**	195.697
	7.978.212	10.843.610

6. Staff costs

	2016 €	2015 €
Staff salaries and other remuneration	**9.201.625**	8.725.818
Social insurance and other contributions	**1.698.855**	1.616.537
Retirement benefit costs	**812.977**	750.542
	11.713.457	11.092.897

The number of persons employed by the Bank as at 31 December 2016 was 237 (2015: 234).

The Bank operates a defined contribution scheme which provides for employer contributions on the employee gross salary and employee contributions of 3%-10% of their gross salary. The Company's contributions are expensed as incurred and are included in staff costs. The Company has no legal or constructive obligations to pay further contributions if the scheme does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods.

The current collective agreement which expired on 31 December 2016 provided the following employer contributions to the provident fund:

- For period 1 January 2014 to 31 December 2015 the employer contribution was at 9%
- For period 1 January 2016 to 31 December 2016 the employer contribution was 9,5%
- From 1 January 2017 onwards the employer contribution is 11,5%

7. Fee and commission income and expense

	2016	2015
	€	
Fee and commission income		
Credit-related fees and commissions	**140.573**	76.621
Other banking commissions	**1.881.809**	2.172.942
	2.022.382	2.249.563

	2016	2015
	€	€
Fee and commission expense		
Banking commissions	**434.028**	480.505
	434.028	480.505

8. Other operating expenses

	2016	2015
	€	€
Repairs and maintenance of property and equipment	**1.268.858**	1.432.079
Operating lease rentals for buildings	**692.649**	670.077
Special levy on deposits of credit institutions in Cyprus	**853.757**	899.652
Consultancy and other professional services	**622.929**	810.529
Insurances	**439.437**	454.767
Advertising and marketing	**103.516**	149.096
Supervision fees	**177.106**	132.659
Other property related costs	**319.815**	343.936
Other operating expenses	**1.264.997**	862.248
	5.743.064	5.755.043

Special levy on deposits of credit institutions in Cyprus
According to the "Special Levy on Credit Institutions Law of 2011 to 2015", special levy, is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31st December, 31 March, 30 June and 30 September.

Based on the latest amendment of the Law published in the official Gazette on the 17th December 2015, as from 1st January 2015 until the 31st of December 2021, 35/60 of the amount received will be deposited to the newly incorporated Recapitalisation Fund pursuant to the Law 190(I) 2015.

Consultancy and other professional services include fees payable to the auditor of €134.709 (2015: €219.503), as analysed below:

	2016	2015
	€	€
Statutory audit of the Bank and its special purpose entities	**108.172**	98.734
Other assurance services	**15.470**	16.660
Tax services	**7.735**	20.266
Other non-audit services	**3.332**	83.843
	134.709	219.503

9. Tax

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2016	2015
	€	€
Loss before tax	**(2.296.662)**	(7.240.010)
Corporation tax based on the applicable rates	**(287.083)**	(905.001)
Tax effect of:		
- Not deductible expenses	**701.681**	623.468
- Income not subject to tax	**(586.266)**	(164.102)
- Tax losses for the year	**171.668**	445.635
Tax per the consolidated income statement	**-**	-

Corporation tax is calculated at the rate of 12,5% on taxable income.

On 21 December 2012, the House of Representatives enacted amendments to the Income Tax law, according to which the loss of any tax year shall not be carried forward and shall not be offset against any income of any tax year further than five years from the end of the tax year in which the loss arose. As at 31 December 2016 the Bank's tax losses to be carried forward amounted to €23,7 million (2015: €22,4 million) in connection with which the Bank recognised a deferred tax asset in the consolidated statement of financial position corresponding to the future utilisation of €1,3 million (2015: €2,5 million) of tax losses.

The movement of the deferred tax liability is as follows:

	2016	2015
	€	€
Balance at 1 January	**-**	33.528
Charge/(reversal) to the Consolidated Income Statement	**3.263**	(43.205)
Charge to the Statement of Comprehensive Income	**128.482**	9.677
Balance at 31 December	**131.745**	-

The balance of net deferred tax liability (Note 22) represents:	**2016**	2015
	€	€
Difference between tax allowances and accounting depreciation	**(20.227)**	(26.756)
Revaluation of property	**498.484**	342.932
Stock of property	**(184.719)**	-
Tax losses utilised	**(161.793)**	(316.176)
	131.745	-

10. Loss per share

	2016 **€**	2015 €
Loss attributable to the owners of the Bank	**(2.332.901)**	(7.248.268)
Weighted average number of shares in issue during the year	**256.382.139**	190.193.768
Loss per share (cent)	**(0,9)**	(3,8)

At 31 December 2016, there were no titles convertible to ordinary shares and consequently diluted losses per share are not presented.

11. Cash and balances with the Central Bank of Cyprus

	2016 **€**	2015 €
Cash	**5.976.925**	6.522.437
Balances with Central Bank of Cyprus	**61.360.402**	13.636.464
	67.337.327	20.158.901

Deposits with the Central Bank of Cyprus include obligatory deposits for liquidity purposes which amount to €3.361.691 (2015: €3.636.547).

The analysis of credit ratings for deposits with the Central Bank of Cyprus by independent rating agencies is presented in Note 33.

12. Placements with banks

	2016 **€**	2015 €
Current accounts	**10.614.226**	5.711.784
Fixed term placements	**13.198.625**	42.585.770
	23.812.851	48.297.554

The analysis of credit ratings of placements with banks by independent rating agencies is presented in Note 33. Placements with banks earn interest which is based on the interbank rate of the relevant term and currency.

13. Loans and advances to customers

	2016 **€**	2015 €
Loans and other advances	**437.008.454**	458.638.810
Provision for impairment of loans and advances	**(111.519.981)**	(104.046.447)
	325.488.473	354.592.363

13. Loans and advances to customers (continued)

Provision for impairment of loans and advances:	**2016**	2015
	€	€
1 January	**104.046.447**	83.853.947
Collections/reversals	**(116.563)**	(2.913.605)
Charge for the year	**12.126.337**	19.526.950
Net charge for the year	**12.009.774**	16.613.345
Restriction of interest on impaired loans	**7.190.411**	5.679.897
Write offs	**(11.726.651)**	(2.100.742)
	7.473.534	20.192.500
31 December	**111.519.981**	104.046.447
Specific provisions	**87.293.389**	83.043.016
Collective provisions	**24.226.592**	21.003.431
	111.519.981	104.046.447

Forborne exposures according to the European Banking Authority (EBA) technical standards
In accordance with the technical standards of the European Banking Authority (EBA) (2014), Forborne exposures as at 31 December 2016 amounted to €86.864.617 (2015: €79.660.619).

According to the European Banking Authority's (EBA) technical standards, forborne exposures are (i) exposures which involve changes in their terms and/or conditions and (ii) the forbearance measures consist of concessions towards a debtor which aim to address existing or anticipated difficulties on the part of the borrower to service debt in accordance with the current repayment schedule. Changes in the terms and conditions of a contract that do not occur because the customer is not able to meet the terms and conditions of the contract due to financial difficulties do not constitute forbearance measures (see details below).

The most significant prerequisite for the forbearance of an exposure is the existence of customer repayment ability i.e. the customer is viable. The Bank's Forbearance Policy includes the terms and conditions on which the Bank determines whether or not a renegotiated repayment schedule shall be granted.

The forbearance measures to be taken and their duration thereof are determined on the basis of specific customer information, based on the prevailing economic conditions and in accordance with relevant legislation or regulatory Directives.

The monitoring of forborne loans is performed by both, Business Units and the Credit Risk Management Department.

Every effort is taken by the Bank for the proper assessment of the new repayment schedule on the basis of the forbearance measures, in order to avoid a new default.

Non-performing exposures according to the European Banking Authority (EBA) technical standards
In accordance with the technical standards of the European Banking Authority (EBA) (2014), Non-performing exposures as at 31 December 2016 amounted to €271.007.976 (2015: €290.135.048).

As per the EBA technical standards, the following are considered as NPEs:

(i) Material exposures that are over 90 days past due,

(ii) The debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due,

13. Loans and advances to customers (continued)

Non-performing exposures according to the European Banking Authority (EBA) technical standards (continued)

(iii) Exposures in respect of which a default is considered to have occurred in accordance with Article 178 of Regulation (EU) No 575/2013,

(iv) Exposures of debtors against whom legal action has been taken by the Bank or exposures of bankrupt debtors,

(v) Exposures that are found impaired as per the applicable accounting framework,

(vi) Forborne exposures reclassified from NPE status that were NPE at forbearance or became NPE after forbearance and which are re-forborne while under probation (the probation period for forborne exposures begins once the contract is considered as performing and lasts for two years minimum),

(vii) Forborne exposures reclassified from NPE status that were NPE at forbearance or became NPE after forbearance (the probation period for forborne exposures begins once the contract is considered as performing and lasts for two years minimum) that present arrears 30 days past due while under probation,

(viii) Further to the above the all-embracing criteria apply as follows: (a) for debtors classified as retail debtors as per the EU Regulation 575/2013, when the Bank has on-balance sheet exposures to a debtor that are material and are past due by more than 90 days the gross carrying amount of which represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, all on and off-balance sheet exposures to that debtor shall be considered as non-performing and (b) for debtors classified as non-retail debtors as per the EU Regulation 575/2013, when the Bank has any on-balance sheet exposures to a debtor that are non-performing (if the exposure is non-performing due to over 90 days past due it must pass the materiality thresholds), all on and off-balance sheet exposures to that debtor shall be considered as NPE. Else, only exposures that are non-performing will be classified as such.

The below materiality thresholds apply only for the NPE criterion of arrears over 90 days past due.

For exposures to debtors classified as Retail as per the EU Regulation 575/2013:
- For term loans: if the past due amount of each exposure is over €500 the exposure it shall be classified as material.
- For overdrafts/current accounts: if the past due amount or the excess of the exposure exceeds €500 or 10% of the limit approved by the Bank the exposure shall be classified as material.

For exposures to debtors not classified as Retail as per the EU Regulation 575/2013:
- If the total excesses/past dues of debtors exceed €1.000 or exceed 10% of their total on balance sheet exposures then all the exposures of the debtor shall be classified as material.

If as per the above the exposures are not classified as material, then they may be classified as performing NPE even if they present arrears over 90 days past due.

Exposures may be considered to have ceased being non-performing when all of the following conditions are met:
(a) the situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modified conditions, is likely to be made;
(b) the debtor does not have any amount past-due by more than 90 days.

When forbearance measures are extended to non-performing exposures or to exposures which had been non-performing at forbearance or became non-performing after forbearance, the exposures may be considered to have ceased being non-performing only when all the following conditions are met:
(a) the extension of forbearance does not lead to the recognition of impairment or default;
(b) one year has passed since the forbearance measures were extended;
(c) there is not, following the forbearance measures, any past-due amount or concerns regarding the full repayment of the exposure according to the post-forbearance conditions.
(d) the debtor does not have any amount past-due by more than 90 days.

13. Loans and advances to customers (continued)

Non-performing exposures according to the European Banking Authority (EBA) technical standards (continued)

As per EBS technical standards evidence of a concession towards a debtor which aim to address existing or anticipated difficulties on the part of the borrower to service debt in accordance with the current repayment schedule, includes:
(a) the modification of the previous terms and conditions of a contract would not have been granted had the debtor not been in financial difficulties;
(b) a difference in favour of the debtor between the modified and the previous terms of the contract;
(c) cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the same institution.

Examples of exposures that should be classified as forborne as per the new EBA technical standards include:
(a) Exposures that were non-performing at forbearance.
(b) Exposures that were past due more than 30 days anytime within 3 months prior to forbearance.
(c) Forbearance measures such as partial write-offs.

Exposures may have ceased to be classified as forborne when all of the following conditions are met:
(a) the contract is considered as performing, including if it has been reclassified from the nonperforming category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing,
(b) a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing;
(c) regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
(d) none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

Bank's policy for specific and collective provisions
The Bank reviews the collectability of its loans and advances to customers and assesses whether a provision for impairment should be recorded in the consolidated income statement. The procedure followed by the Bank for the provisioning exercise comprises of an individual assessment of the exposures for specific provision and assessment for collective impairment as per the Bank's provisioning policy.

Specific provision
The selection criteria for clients which are individually assessed for specific provision and based on the Bank's policy are as follows:
- All exposures to a borrower and his connected parties that are considered significant. A materiality threshold was determined by the Bank.
- Any exposure to a borrower which is classified as high risk because of its total banking exposure or industry.

Exposures which are identified from the above selection criteria are assessed for impairment if a "trigger event" existed. The following trigger events are set by the Bank:
- Exposures that are classified as Non Performing
- Exposures that are Performing but Restructured
- Exposures that are Performing, without irregularities which are overdue for review as per the Banks' credit policy.

Additionally the following categories of exposures are individually assessed irrespective of the existence of a "trigger event".
- All exposures to related parties of the Bank as defined in the Fit and Proper Criteria of the Members of the Management Body Directive of 2006-2007 and their connected parties.
- All exposures to a group of connected parties which exceed 3% of the Bank's share capital and reserves.

For the exposures that are individually assessed for impairment, discounted cash flow (DCF) calculations are performed. The amount of impairment is the difference between the exposure's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The estimated future cash flows include any expected cash flows from the borrowers operations, any other sources of funds and the proceeds from realisation of collaterals where applicable.

13. Loans and advances to customers (continued)

Bank's policy for specific and collective provisions (continued)

Collective provision
All exposures which are assessed on an individual basis but for which no impairment is recognised and also all exposures not individually assessed are grouped in pools of exposures with similar credit risk characteristics and are assessed for collective impairment using the applicable Probability of Default (PD) and Loss Given Default (LGD) rates estimated based on the Bank's provision policy. This methodology is subject to estimation uncertainty, partly because of the absence of detailed individual assessment of the cash repayment particularities surrounding each exposure, due to the large number of exposures in each portfolio.

14. Investments available for sale

	2016 **€**	2015 €
Issuers:		
Foreign corporations	**-**	1.739.272
Cyprus Government	**178.438.968**	-
Foreign Governments	**1.428.817**	-
Foreign banks	**5.962.340**	-
	185.830.125	1.739.272

	2016 **€**	2015 €
Listed in:		
Cyprus stock exchange	**79.988.139**	-
European stock exchanges	**105.841.986**	-
Unlisted	**-**	1.739.272
	185.830.125	1.739.272

The movement of investments available for sale for the year analysed as follows:

	2016 **€**	2015 €
1 January	**1.739.272**	-
Purchases	**-**	-
Sales	**(1.854.093)**	-
Reclassification from HTM (Note 15)	**179.554.882**	-
Fair value gains	**6.390.064**	1.739.272
31 December	**185.830.125**	1.739.272

14. Investments available for sale (continued)

On 31 December 2016, the Bank reassessed its policies in respect of the management of its investment portfolio in line with its efforts to strengthen its liquidity and capital adequacy and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Bank's accounting policies and IFRSs, the Bank will not be allowed to classify any investments as held-to-maturity until December 2018. Nevertheless, under adoption of IFRS 9, being effective 1 January 2018, held-to-maturity category as defined by IAS 39 will cease to exist. This means that the prohibition of holding investments under the specific category will practically cease to apply as from 1 January 2018.

Investments available for sale in 2015 related to a single share of VISA Europe Limited. During 2015 VISA Inc. has come to an agreement for the acquisition of 100% of the share capital of VISA Europe Limited. Under this transaction, originally VISA Europe Limited was valued at €16,5 billion payable in €11,5 billion cash and €5 billion in VISA Inc. preferred stock. The deal also provided for an additional contingent earn-out of a maximum of €4,7 billion which shall be disbursed in the future based on the performance of the VISA Europe operations. The Bank during 2015 had recognised as a fair value gain only its share in the upfront cash consideration of €1.739.272 as calculated and communicated to the Bank by VISA Europe Limited.

During 2016 the terms of the transaction were revised as follows: VISA Europe Limited valued at €18,37 billion payable in €12,25 billion cash, €5 billion in VISA Inc. preferred stock and €1,12 billion additional contingent earnout. As a result the share of the Bank in the upfront cash consideration was increased to €1.854.093 which was disbursed in June 2016. The Bank's share of preferred stock and the additional contingent earn-out, in the absence of reliable fair value data, has not been accounted for.

15. Investments held-to-maturity

	2016 €	2015 €
Issuers:		
Cyprus Government	-	137.156.451
Foreign Government	-	1.373.108
Foreign banks	-	18.729.406
	-	157.258.965

	2016 €	2015 €
Listed in:		
Cyprus stock exchange	-	45.999.370
European stock exchanges	-	110.339.888
Other stock exchanges	-	919.707
	-	157.258.965

15. Investments held-to-maturity (continued)

The movement of investments held-to-maturity for the year analysed as follows:

	2016 **€**	2015 €
1 January	**157.258.965**	100.563.138
Purchase of bonds	**157.953.311**	139.623.622
Sale/maturity of bonds	**(136.160.000)**	(83.213.902)
Effect of changes in exchange rates	**147.890**	369.309
Amortisation	**354.716**	(83.202)
Reclassification to AFS (Note 14)	**(179.554.882)**	-
31 December	**-**	157.258.965

On 31 December 2016, the Bank reassessed its policies in respect of the management of its investment portfolio in line with its efforts to strengthen its liquidity and capital adequacy and decided to reclassify all debt securities previously classified as held-to-maturity to investments available-for-sale, in order to be able to sell these securities as and when required. As a result, in accordance with the Bank's accounting policies and IFRSs, the Bank will not be allowed to classify any investments as held-to-maturity until December 2018. Nevertheless, under adoption of IFRS 9, being effective 1 January 2018, held-to-maturity category as defined by IAS 39 will cease to exist. This means that the prohibition of holding investments under the specific category will practically cease to apply as from 1 January 2018.

16. Stock of property

In December 2016, the Bank has changed its business model with respect to real estate assets acquired from customers as part of the Bank's efforts to provide solutions to distressed borrowers, to a model that involves actively managing such properties with an intention to sell them. To execute its strategy, the Bank has set up a dedicated Real Estate department. Following the establishment of the Real Estate department and certain other actions undertaken by the Bank, the Banks has assessed that for the majority of properties previously classified as investment properties, there has been a change in use and has therefore transferred such properties from investment properties to stock of property. This has led to a change in the measurement basis of these properties from fair value to the lower of cost and net realisable value since the carrying value of stock is determined as the lower of cost and net realisable value.

The carrying value of the stock of property is analysed in the tables below.

	2016 **€**	2015 €
1 January	**-**	-
Additions for the year:		
- acquired in settlement of customer obligations	**22.124.789**	-
Transfer from Investment properties (Note 17)	**37.009.194**	-
31 December	**59.133.983**	-

Analysis of properties by type:	**2016** **€**	2015 €
Residential properties	**17.617.182**	-
Commercial properties	**16.200.000**	-
Manufacturing and industrial properties	**790.000**	-
Land	**16.656.801**	-
Properties under construction	**7.870.000**	-
	59.133.983	-

17. Investment properties

Investment properties consist of properties acquired in settlement of customer debts and are presented at the reporting date at their estimated fair value.

	2016 €	2015 €
1 January	**47.031.030**	30.756.000
Additions for the year:		
- in cash	**20.693**	1.127.130
- acquired in settlement of customer obligations	**2.480.047**	16.582.667
Change in fair value	**(571.549)**	(1.434.767)
Transfer to Stock of property (Note 16)	**(37.009.194)**	-
31 December	**11.951.027**	47.031.030

18. Property and equipment

Year 2016	**Freehold property**	**Leasehold property**	**Leasehold improvements**	**Equipment**	**Total**
	€	**€**	**€**	**€**	**€**
Cost or estimated fair value					
1 January	4.311.748	4.248.335	3.326.747	5.800.934	**17.687.764**
Additions	-	3.130	318.054	197.906	**519.090**
Disposals/write-offs	-	-	(330.003)	(1.024.897)	**(1.354.900)**
Revaluation	192.375	98.314	-	-	**290.689**
Reversal of depreciation due to revaluation	(187.374)	(85.029)	-	-	**(272.403)**
31 December	4.316.749	4.264.750	3.314.798	4.973.943	**16.870.240**
Depreciation					
1 January	649.774	-	2.559.311	4.885.729	**8.094.814**
Charge for the year	114.911	85.029	153.867	292.775	**646.582**
Disposals/write-offs	-	-	(327.212)	(1.019.031)	**(1.346.243)**
Reversal of depreciation due to revaluation	(187.374)	(85.029)	-	-	**(272.403)**
31 December	577.311	-	2.385.966	4.159.473	**7.122.750**
Net Book Value	3.739.438	4.264.750	928.832	814.470	**9.747.490**

18. Property and equipment (continued)

Year 2015	Freehold property	Leasehold property	Leasehold improvements	Equipment	Total
	€	€	€	€	€
Cost or estimated fair value					
1 January	4.311.748	-	3.257.480	5.499.866	**13.069.094**
Additions	-	4.190.307	69.267	527.357	**4.786.931**
Disposals/write-offs	-	-	-	(226.289)	**(226.289)**
Revaluation	-	113.791	-	-	**113.791**
Reversal of depreciation due to revaluation	-	(55.763)	-	-	**(55.763)**
31 December	4.311.748	4.248.335	3.326.747	5.800.934	**17.687.764**
Depreciation					
1 January	494.122	-	2.409.954	4.894.032	**7.798.108**
Charge for the year	155.652	55.763	149.357	217.879	**578.651**
Disposals/write-offs	-	-	-	(226.182)	**(226.182)**
Reversal of depreciation due to revaluation	-	(55.763)	-	-	**(55.763)**
31 December	649.774	-	2.559.311	4.885.729	**8.094.814**
Net Book Value	3.661.974	4.248.335	767.436	915.205	**9.592.950**

Freehold properties are presented at fair value based on valuations carried out in December 2016 by independent qualified surveyors less subsequent depreciation charge. The valuation technique mainly applied is the market comparable approach, adjusted for market and property specific conditions. The fair value of freehold properties is as at 31 December 2016 and does not represent any expectations about their future value.

The net book value of own properties at 31 December 2016 based on cost less accumulated depreciation is €896.437 (2015: €959.355).

Freehold property includes land which is not depreciated and its book value at 31 December 2016 was €1.351.734 (2015: €1.349.818).

19. Intangible assets

	2016	2015
	€	€
	Computer software	Computer software
Cost		
1 January	**5.814.122**	5.541.006
Additions	**341.101**	273.116
31 December	**6.155.223**	5.814.122
Amortisation		
1 January	**5.261.276**	4.962.102
Charge for the year	**273.706**	299.175
31 December	**5.534.982**	5.261.276
Net Book Value	**620.241**	552.846

20. Other assets

	2016	2015
	€	€
Sundry debtors and other assets	**1.682.767**	1.792.153
Collateral amount with Visa International	**1.145.415**	1.098.882
	2.828.182	2.891.035

The collateral amount with Visa International represents a blocked deposit account of the Bank in US dollars which is placed as security for the purposes of its cooperation with the organisation. Other assets include prepaid interest on customer deposits outstanding at year end.

21. Customer deposits

	2016	2015
	€	€
Demand deposits	**130.883.914**	128.710.078
Notice deposits	**96.206.488**	75.303.677
Term deposits	**376.453.836**	378.710.151
	603.544.238	582.723.906

22. Other liabilities

	2016	2015
	€	€
Sundry creditors	**31.079**	218.875
Deferred Income	**85.682**	84.909
Net deferred tax liability (Note 9)	**131.745**	-
Bills payable	**1.939.412**	5.132.809
Finance lease liability (Note 30)	**4.075.777**	3.993.365
Other liabilities	**2.054.269**	1.171.599
Accrued expenses	**639.368**	1.247.651
Special defence contribution	**257.190**	450.322
	9.214.522	12.299.530

23. Share capital and share premium reserve

	Year 2016			Year 2015		
	Number of shares	Share capital	Share premium	Number of shares	Share capital	Share premium
		€	€		€	€
Authorised						
Ordinary shares of €0,10 each	**855.000.000**	**85.500.000**	-	855.000.000	85.500.000	-
Issued and fully paid						
1 January	**206.737.330**	**20.673.733**	**44.120.065**	165.973.330	16.593.733	38.000.065
Share issue	**115.000.000**	**11.500.000**	**11.500.000**	40.800.000	4.080.000	6.120.000
31 December	**321.737.330**	**32.173.733**	**55.620.065**	206.737.330	20.673.733	44.120.065

In the Annual General Meeting (“AGM”) held on the 26th July 2016 a special resolution was passed whereby the Bank was authorised to proceed with the issue and allotment of 115.000.000 new ordinary shares of nominal value of €0,10 to BLC Bank SAL at the issue price of €0,20 per share (the “Issue”). With the successful Issue and allotment of 115.000.000 new ordinary shares to BLC Bank SAL the issued share capital of the Bank amounts to €32.173.733 divided into 321.737.330 ordinary shares of nominal value €0,10 per share. The new 115.000.000 ordinary shares rank pari passu with the existing shares of the Bank.

24. Revaluation reserves

Year 2016	Investments revaluation reserve €	Property revaluation reserve €	Total €
1 January	1.739.272	3.408.013	**5.147.285**
Gain on revaluation of available for sale investments	6.390.064	-	**6.390.064**
Gain on revaluation of property	-	290.689	**290.689**
Recycling though Income statement on Disposal of Investments	(1.854.093)	-	**(1.854.093)**
Deferred tax	-	(128.482)	**(128.482)**
31 December	6.275.243	3.570.220	**9.845.463**
Attributable to:			
Owners of the Bank	6.275.243	3.517.215	**9.792.458**
Non-controlling interests	-	53.005	**53.005**
	6.275.243	3.570.220	**9.845.463**

Year 2015	Investments revaluation reserve €	Property revaluation reserve €	Total €
1 January	-	3.303.899	**3.303.899**
Gain on revaluation of available for sale investments	1.739.272	-	**1.739.272**
Gain on revaluation of property	-	113.791	**113.791**
Deferred tax	-	(9.677)	**(9.677)**
31 December	1.739.272	3.408.013	**5.147.285**
Attributable to:			
Owners of the Bank	1.739.272	3.379.577	**5.118.849**
Non-controlling interests	-	28.436	**28.436**
	1.739.272	3.408.013	**5.147.285**

25. Accumulated losses

The only reserves available for distribution as dividend are retained earnings. In 2016 and 2015 no dividends were paid nor declared to be paid since the Bank had accumulated losses.

Companies which do not distribute 70% of their profits after tax, as defined by the relevant tax law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the shareholders (companies and individuals) are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Bank for the account of the shareholders.

The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year. This special defence contribution is paid by the Company on account of the shareholders.

The Bank incurred losses in year 2014 and as a result no special defence contribution in relation to deemed dividend distribution was payable in the year.

26. Fair value measurement

The following table presents the fair value measurement hierarchy of the Bank's assets and liabilities recorded at fair value or for which fair value is disclosed.

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Year 2016	**Level 1 €**	**Level 2 €**	**Level 3 €**	**Total €**
Assets measured at fair value				
Investment Properties	-	-	11.951.027	**11.951.027**
Freehold Property	-	-	3.739.438	**3.739.438**
Leasehold Property	-	-	4.264.750	**4.264.750**
Investments Available for Sale				
-Cyprus Government Bonds	-	178.438.968	-	**178.438.968**
-Foreign Goverments Bonds	1.428.817	-	-	**1.428.817**
-Foreign Banks	5.962.340	-	-	**5.962.340**
	7.391.157	178.438.968	19.955.215	**205.785.340**

Year 2015	**Level 1 €**	**Level 2 €**	**Level 3 €**	**Total €**
Assets measured at fair value				
Investment Properties	-	-	47.031.030	**47.031.030**
Freehold Property	-	-	4.311.748	**4.311.748**
Leasehold Property	-	-	4.248.335	**4.248.335**
Investments Available for Sale				
-Other non-listed investments	-	-	1.739.272	**1.739.272**
	-	-	57.330.385	**57.330.385**

26. Fair value measurement (continued)

There have been no transfers between different levels during the year.

The movement in Level 3 assets which are measured at fair value is presented below:

Year 2016	Investment properties €	Freehold properties €	Leasehold properties €	Investments Available for Sale €
1 January	47.031.030	3.661.974	4.248.335	1.739.272
Additions	2.500.740	-	3.130	-
Disposals	-	-	-	(1.854.093)
Depreciation charge for the year	-	(114.911)	-	-
Revaluation gains/(losses)	(571.549)	192.375	13.285	114.821
Transfer to stock of property	(37.009.194)	-	-	-
31 December	11.951.027	3.739.438	4.264.750	-

Year 2015	Investment properties €	Freehold properties €	Leasehold properties €	Investments Available for Sale €
1 January	30.756.000	3.817.626	-	-
Additions	17.709.797	-	4.190.307	-
Disposals	-	-	-	-
Depreciation charge for the year	-	(155.652)	(55.763)	1.739.272
Revaluation gains/(losses)	(1.434.767)	-	113.791	-
31 December	47.031.030	3.661.974	4.248.335	1.739.272

The fair value measurements of properties were classified as Level 3 due to the absence of an active market in Cyprus. The liquidation of properties is considered to be problematic and the number of transactions that the valuators can use has been dramatically restricted. The valuation technique mainly applied is the market comparable approach, adjusted for market and property specific conditions. In certain cases the Bank also utilises the income capitalisation approach. With the market comparable approach, valuations were determined by using transaction prices from similar properties adjusted to reflect the differences between these transactions and the properties under study as well as changes in market conditions.

27. Contingent liabilities and commitments

	2016	2015
	€	€
Contingent liabilities		
Acceptances and endorsements	**-**	71.532
Guarantees	**10.584.436**	12.508.484
	10.584.436	12.580.016
Commitments		
Documentary credits and certified export credits	**1.161.877**	1.506.108
Unutilised limits	**43.087.211**	36.040.365
	44.249.088	37.546.473

Unutilised limits are commitments for the provision of facilities to customers. The limits are provided for a fixed period and are cancellable by the Bank after specific notice to the client.

Capital commitments

Capital commitments of approximately €2 million were made in year 2016 in relation to the renovation of the Bank's new Head Office.There were no commitments for contracted capital expenditure of the Bank as at 31 December 2015.

Litigation

As at 31 December 2016, with the exception of the case mentioned below the Bank in the ordinary course of business is involved in lawsuits, which the Management of the Bank does not expect to have a significant effect on the financial position and operations of the Bank. At the same time, there are no other pending claims or/and assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

Commission for the Protection of Compensation Investigation

Following an investigation, which began in 2010, the Cypriot Commission for the Protection of Competition ("CPC") in April 2014 issued its statement of objections, alleging possible violations of Cypriot and EU competition law relating to the activities and/or omissions in respect of card payment transactions by, among others, the Bank. The CPC has investigated the possibility that the market conduct of JCC Payment Systems Ltd ("JCC"), a card-processing business owned by its shareholder banks, together with the conduct of other banks, violates competition law at both a national and European Union level.

By its decision of 24th June 2015, the CPC has concluded that the Bank (in common with other banks and institutions, namely JCC) had breached both national and European applicable law for the protection of competition. The proceedings before the CPC for the determination of the fine had been stalled due to an Administrative Court decision holding that the composition of the CPC was contrary to law, which was however overturned in March 2017 by the Supreme Court on appeal of the Attorney General.

A notification of the final decision was issued by the CPC on 22nd May 2017 with the following orders for execution affecting the Bank:

- JCC together with the Bank (in common with other banks) which are not its shareholders, have entered into vertical agreements by which they fix interchange fees which affect competition in the market for payment cards and consequently the market for payment card acceptance within Cyprus, in breach of section 3(1)(a) of the Law and of section 1010 of the TFEU.
- Obliges the accused companies to immediately cease the observed violations and to avoid their repetition in the future.
- Imposes a fine upon the Bank in the amount of €121.519.
- The fine is payable within 30 calendar days from 22nd May 2017.

The Bank has taken remedial measures and has ceased the above observed violations since October 2015.

The Bank has the right to file an appeal for the annulment of the CPC's decision within 75 days from the day of notification. The Bank will proceed with a settlement of the fine as per the terms of the decision and therefore will recognise the above loss in its financial results for the year 2017.

28. Analysis of assets and liabilities by expected maturity

	Year 2016			Year 2015		
	Less than one year	**Over one year**	**Total**	Less than one year	Over one year	Total
	€	**€**	**€**	€	€	€
Assets						
Cash and deposits with Central Bank of Cyprus	**61.904.092**	**5.433.235**	**67.337.327**	9.202.808	10.956.093	20.158.901
Placements with banks	**23.812.581**	**-**	**23.812.851**	48.297.554	-	48.297.554
Loans and advances to customers	**43.182.675**	**282.305.798**	**325.488.473**	38.360.287	316.232.076	354.592.363
Investments held-to-maturity	**-**	**-**	**-**	60.166.356	97.092.609	157.258.965
Investments available for sale	**85.417.077**	**100.413.048**	**185.830.125**	1.739.272	-	1.739.272
Investment properties	**-**	**11.951.027**	**11.951.027**	5.000.000	42.031.030	47.031.030
Stock of property	**15.000.000**	**44.133.983**	**59.133.983**	-	-	-
Property, equipment and intangible assets	**-**	**10.367.731**	**10.367.731**	-	10.145.797	10.145.797
Other assets	**1.682.767**	**1.145.415**	**2.828.182**	1.792.152	1.098.882	2.891.034
	225.566.227	**461.183.472**	**686.749.699**	164.558.429	477.556.487	642.114.916
Liabilities						
Customer deposits	**60.220.718**	**543.323.520**	**603.544.238**	34.919.261	547.804.645	582.723.906
Other liabilities	**5.299.819**	**3.914.703**	**9.214.522**	8.475.772	3.823.758	12.299.530
Deposit by Banks	**122.497**	**1.378.709**	**1.501.206**	-	-	-
	65.643.034	**548.616.932**	**614.259.966**	43.395.033	551.628.403	595.023.436

The main assumptions used in determining the expected maturity of assets and liabilities are set out below:
- Loans and advances to customers are classified based on their expected repayment schedule and the expected collectability.
- Customer deposits and other accounts are classified based on historical behavioural data.
- Other assets and liabilities are classified based on their contractual maturity date.
- Stock of property is classified based on the expected disposal strategy.

29. Operating leases

Commitments under non-cancellable operating leases are as follows:

	2016	2015
	€	€
Within one year	**619.098**	568.409
Between two and five years	**561.873**	197.048
Over five years	**-**	-
	1.180.971	765.457

The Bank's commitments for leases of buildings depend on the provisions of the relevant operating lease agreements. These agreements contain provisions for future adjustments on the lease payments, and allow the renewal of the agreements upon expiry by the Bank.

30. Finance leases

Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2016		2015	
	Minimum payments	**Present value of payments**	Minimum payments	Present value of payments
	€	**€**	€	€
Within one year	**200.000**	**191.901**	200.000	191.874
Between two and five years	**861.827**	**692.693**	836.725	672.598
Over five years	**19.819.852**	**3.191.183**	20.044.954	3.128.893
Total minimum lease payments	**20.881.679**	**4.075.777**	21.081.679	3.993.365
Less amounts representing finance charges	**(16.805.902)**	**-**	(17.088.314)	-
	4.075.777	**4.075.777**	3.993.365	3.993.365

31. Net cash flow from/(used in) operating activities

	2016	2015
	€	€
Loss before tax	**(2.296.662)**	(7.240.010)
Adjustments:		
Provision for impairment of loans and advances	**12.009.774**	16.613.345
Depreciation and amortisation	**920.288**	877.826
Loss on disposal of property and equipment	**4.957**	107
Loss on revaluation of investment property	**571.549**	1.434.767
Realised gain on disposal of Available for Sale investments	**(1.854.093)**	-
Interest on investments	**(4.308.520)**	(5.694.353)
Interest on loan capital	**-**	436.355
	5.047.293	6.428.037
(Increase)/decrease in operating assets:		
Obligatory deposits with the Central Bank	**274.856**	2.153.376
Investments in bonds	**(502.605)**	(286.107)
Loans and advances to customers	**16.633.116**	7.712.149
Investment properties	**34.990.147**	(16.582.667)
Inventory	**(59.133.983)**	-
Other assets	**62.853**	(51.632)
	(7.675.616)	(7.054.881)
Increase/(decrease) in operating liabilities:		
Customer deposits	**20.820.332**	(23.582.882)
Deposits from Banks	**1.501.206**	-
Other liabilities and other accounts	**(3.216.753)**	1.739.158
	19.104.785	(21.843.724)
Net cash flow from/(used in) operating activities	**16.476.462**	(22.470.568)

32. Cash and cash equivalents

	2016	2015
	€	€
Cash and balances with Central bank of Cyprus (Note 11)	**67.337.327**	20.158.901
Placements with banks (Note 12)	**23.812.851**	48.297.554
	91.150.178	68.456.455
Less obligatory deposits with the Central Bank (Note 11)	**(3.361.691)**	(3.636.547)
	87.788.487	64.819.908

33. Risk management

In the ordinary course of the business, the Bank is exposed to various risks, which are managed and monitored through a continuous process of identification, measurement, and monitoring to prevent undue risk concentrations. The Bank's management considers risk management to be a major process and factor in ensuring sustainable return to its shareholders. Each manager is responsible for the risks arising from their daily duties. A description of the nature of those risks and the way they are managed is provided below:

Credit risk

Credit risk is defined as the risk of financial loss if a customer and/or other counterparty fail to meet their contractual obligations with the Bank to any financial instrument. Primarily the risk arises from credit facilities, trade finance and treasury management. The management of credit risk is of outmost importance and very essential for the Bank's long term soundness.

The Credit Risk Management Department has the responsibility to evaluate and assess the credit risk of the Bank and the responsibility to manage and control credit risk through various mechanisms on the basis of the strategic goals as determined by the Board of Directors. It recommends establishing and developing credit policies and procedures based on Central Bank of Cyprus directives and adjust when appropriate, in consultation with the General Management, the lending delegation limits for the various Approving Authorities.

The Credit Risk Management Department evaluates the granting of credit facilities to customers of the Bank under the credit policy and procedures, limits and principles of financing. From February 2017 a new Unit was set-up namely Credit Management which undertook this role in line with Central Bank of Cyprus guidelines and best practices.

The approval process of credit facilities aims at minimising credit risk by evaluating the creditworthiness of the counterparty, the collateral offered and the type of credit facility. Credit risks from connected customer accounts are consolidated and monitored on a single customer group basis.

The Credit Risk Management Department assesses the entrance to new markets and products. It also recommends changes and additions to the Credit Risk Management Framework. The department is highly involved with the assessment, formulation and preparation of the prudential reporting such as: Common Reporting ("COREP"), Internal Capital Adequacy Assessment Process ("ICAAP"), Internal Liquidity Adequacy Assessment Process ("ILAAP"), Pillar 3 report and Recovery Plan.

The Bank prepares various reports relating to the control of credit risk at fixed intervals, and sends them to the Board Risk Committee and the Regulatory & Banking Supervision Department of the Central Bank of Cyprus. On individual cases where there is a breach of the supervisory limits, the Central Bank of Cyprus is informed accordingly and the Bank takes all appropriate measures to eliminate them in compliance with the directives of the Central Bank of Cyprus.

33. Risk management (continued)

Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk, without taking into account any collateral held as well as other credit enhancements.

	2016 €	2015 €
Balances with Central Bank of Cyprus (Note 11)	**61.360.402**	13.636.464
Placements with banks (Note 12)	**23.812.851**	48.297.554
Loans and advances to customers (Note 13)	**325.488.473**	354.592.363
Investments available for sale (Note 14)	**185.830.125**	1.739.272
Investments held-to-maturity (Note 15)	**-**	157.258.965
Other assets (Note 20)	**2.828.182**	2.891.035
Total on balance sheet	**599.320.033**	578.415.653
Contingent liabilities (Note 27)	**10.584.436**	12.580.016
Commitments (Note 27)	**44.249.088**	37.546.473
Total off balance sheet	**54.833.524**	50.126.489
Total credit exposure	**654.153.557**	628.542.142

Collateral and other credit enhancements

Loans and advances to customers
The main types of collateral obtained by the Bank are mortgages of properties, cash collaterals, bank guarantees, pledges of equity securities, fixed and floating charges over corporate assets, assignment of life insurance policies, assignment of rights on certain contracts and personal and corporate guarantees.

Other financial instruments other than loans and advances to customers
Collateral held as security for financial assets other than loans and advances to customers is determined by the nature of the instrument. Debt securities, treasury bills and other eligible bills are generally unsecured.

Credit risk concentration
There are restrictions on credit risk concentrations which are imposed by the Banking Law and the relevant Directive of the Central Bank of Cyprus. According to these restrictions, banks are prohibited from lending more than 25% of their capital base to a single customer group after taking into account the effect of credit risk reduction techniques as they are defined in the Capital Requirements Regulation (EU) No 575/2013. Also, the Banking law provides for limitations and prohibitions in relation to transactions involving members of the Board of Directors and main shareholders of the Bank. The Bank is in total compliance with all the above regulatory limits as at 31 December 2016.

The Banks' exposure to credit risk arising from customer groups, who have credit facilities amounting to more than 10% of the Bank's capital base as at 31 December 2016, was €97,8 million (2015: €178,4 million), before any provision and credit risk reduction techniques.

33. Risk management (continued)

Credit risk concentration (continued)

The concentration of loans and advances relating to the clients' sector in the economy is as follows:

2016	Gross Loans and advances €	Provision for impairment €	Net Loans and Advances €
Trade and manufacturing	77.768.598	(18.218.114)	**59.550.484**
Tourism	49.370.642	(7.885.186)	**41.485.456**
Property and construction	105.792.267	(33.572.463)	**72.219.804**
Personal and professional	174.369.461	(42.332.690)	**132.036.771**
Other sectors	29.707.486	(9.511.528)	**20.195.958**
	437.008.454	(111.519.981)	**325.488.473**

2015	Gross Loans and advances €	Provision for impairment €	Net Loans and Advances €
Trade and manufacturing	89.171.335	(23.867.543)	**65.303.792**
Tourism	64.613.828	(9.158.082)	**55.455.746**
Property and construction	133.971.013	(32.951.617)	**101.019.396**
Personal and professional	155.427.098	(37.233.910)	**118.193.188**
Other sectors	15.455.536	(835.295)	**14.620.241**
	458.638.810	(104.046.447)	**354.592.363**

33. Risk management (continued)

Credit risk (continued)

Credit quality of loans and advances to customers

Performing	2016 €	2015 €
Neither past due nor impaired	**144.442.782**	139.089.479
Past due but not impaired:		
- Up to 30 days	**16.367.072**	12.647.178
- 31 to 60 days	**3.067.172**	10.535.643
- 61 to 90 days	**2.072.654**	6.139.644
- Over 90 days	**50.798**	91.818
	166.000.478	168.503.762
Non-Performing		
Neither past due nor impaired	**4.294.094**	3.044.564
Past due but not impaired:		
- Up to 30 days	**286.992**	123.530
- 31 to 60 days	**132.431**	173.435
- 61 to 90 days	**215.703**	2.844.664
- 91 to 180 days	**1.672.467**	5.861.282
- 181 to 365 days	**1.311.192**	2.931.256
- Over one year	**8.119.375**	13.046.288
Impaired	**254.975.722**	262.110.029
	271.007.976	290.135.048
Total Performing and non-performing		
Neither past due nor impaired	**148.736.876**	142.134.043
Past due but not impaired:		
- Up to 30 days	**16.654.064**	12.770.708
- 31 to 60 days	**3.199.603**	10.709.078
- 61 to 90 days	**2.288.357**	8.984.308
- 91 to 180 days	**1.695.241**	5.898.060
- 181 to 365 days	**1.327.359**	2.970.625
- Over one year	**8.131.232**	13.061.957
Impaired	**254.975.722**	262.110.029
	437.008.454	458.638.810

Impaired Loans and Advances
Represent the loans and advances for which the Bank determines that there is objective evidence for impairment as a result of one or more loss events occurring after initial recognition and which have an impact on the estimated future cash flows as assessed either on an individual basis or on a collective basis.

33. Risk management (continued)

Credit risk (continued)

Neither past due nor impaired performing loans and advances to customers

The credit quality of performing loans and advances to customers that were neither past due nor impaired is managed by the Bank using internal credit ratings.

The table below shows the credit quality of performing loans and advances to customers that were neither past due nor impaired based on this credit rating system.

	2016	2015
	€	€
Grade 1	**90.511.474**	112.721.022
Grade 2	**20.338.148**	14.700.408
Grade 3	**33.593.160**	11.668.049
	144.442.782	139.089.479

Grade 1:
This rating is applicable for loans and advances to customers that do not display any negative indications.

Grade 2:
This rating is applicable for loans and advances that even though are not yet problematic, are in need of monitoring to avoid possible future problems.

Grade 3:
This rating is applicable for loans and advances that are problematic and for which there might be doubts as to their collection by the Bank. Moreover, there is a possibility for improvement and repayment of the debt after close handling and monitoring from the Bank through a successful restructuring of their facilities.

Collaterals
The table below shows the the fair value of collaterals held by the Bank in respect of the classification of loans to which those collaterals relate.

	2016	2015
	€	€
Neither past due nor impaired	**278.264.464**	189.435.649
Past due but not impaired	**60.511.019**	84.506.352
Impaired	**157.350.449**	161.974.209
	496.125.932	435.916.210

Forbearance
Forbearance measures occur in situations in which the borrower is considered to be unable to meet the terms and conditions of the contract due to financial difficulties. Taking into consideration these difficulties, the Bank decides to modify the terms and conditions of the contract to provide the borrower the ability to service the debt or refinance the contract, either partially or fully.

The Bank has developed and implemented suitable restructuring framework of credit facilities in order to provide viable borrowers with restructuring solutions that are robust and sustainable in the long term and thus enhance the safeguarding of the assets of the Bank.

A comprehensive set of Restructuring Options of Credit Facilities is essential to enable the Bank to provide relevant, appropriate and sustainable solutions to troubled borrowers. These options shall provide for an array of short-, medium- and long-term solutions as applicable to the specificities of each troubled borrower.

33. Risk management (continued)

Credit risk (continued)

Forbearance (continued)
The facilities that are considered restructured as at the year end, are analysed below as per their facility sector:

	2016	2015
	€	€
Trade and manufacturing	**8.848.671**	4.993.091
Tourism	**12.486.053**	11.646.171
Property and construction	**36.586.046**	38.924.167
Personal and professional	**27.813.656**	23.375.797
Other sectors	**1.130.191**	721.393
	86.864.617	79.660.619

Credit quality of assets exposed to credit risk other than loans and advances to customers

Credit ratings from independent rating agencies
Balances with the Central Bank of Cyprus and placements with banks are analysed in accordance with their Moody's rating as follows:

	2016	2015
	€	€
Items in the course of collection	**2.228.857**	2.691.937
Aaa – Aa3	**8.654.999**	4.630.175
A1 – A3	**12.803.429**	4.776.272
Baa1 – Baa3	**-**	28.630
B1 - B3	**61.360.402**	13.636.464
Caa1 – Caa3	**203**	428
Unrated	**125.363**	36.170.112
	85.173.253	61.934.018

Government and other bonds are analysed in accordance with their Moody's rating as follows:

	2016	2015
	€	€
Aaa – Aa3	**1.428.817**	1.373.108
A1 – A3	**4.000.131**	14.504.873
Baa1 – Baa3	**1.962.209**	4.224.533
B1 – B3	**178.438.968**	137.156.451
	185.830.125	157.258.965
Issued by:		
Cyprus government	**178.438.968**	137.156.451
Foreign governments	**1.428.817**	1.373.108
Foreign banks	**5.962.340**	18.729.406
	185.830.125	157.258.965
Classified as:		
Investments held to maturity	**-**	157.258.965
Investments available for sale	**185.830.125**	-
	185.830.125	157.258.965

33. Risk management (continued)

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk arises as a result of timing differences on the repricing interest rates of assets and liabilities.

Interest rate risk is measured, monitored and controlled using interest rate sensitivity gap analysis estimating the difference between assets and liabilities for which interest rates are repriced in each time band, separately for each currency. This difference is multiplied by the respective assumed change in interest rates for the period from the repricing date until twelve months from the date of the analysis, in order to estimate the impact on annual revenues of any changes in interest rates for the next twelve months for each currency.

Sensitivity analysis
The table below indicates the effect on the Bank's net interest income and loss before tax, for one-year period, from reasonably possible changes in the interest rate of the main currencies:

Change in interest rates

2016	Euro	US Dollars	Japanese Yen	Other currencies	Total
	€	€	€	€	€
+0,5% for Euro +1% for US Dollars +0,5% for all other currencies	376.454	91.709	613	10.628	479.404
-0,25% for Euro 0% for US Dollars -0,25% for all other currencies	(188.227)	-	(307)	(5.314)	(193.848)

2015	Euro	US Dollars	Japanese Yen	Other currencies	Total
	€	€	€	€	€
+0,5% for all other currencies	380.047	38.808	580	30.739	450.174
-0,25% for US Dollars -0,5% for all other currencies	(375.282)	(19.404)	(580)	(30.739)	(426.005)

Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Assets and Liabilities Committee (ALCO) has approved open position limits for each currency and for total foreign exchange position limits. These limits are managed by Treasury Department and monitored by the Operational Risk Management Unit. The Bank uses foreign exchange swaps for foreign exchange risk hedging, for which it does not apply hedge accounting.

As a result, there are no materially open positions in any currency, and consequently the impact on net loss and equity of reasonably possible changes in exchange rates is not expected to be significant.

33. Risk management (continued)

Currency risk (continued)

Analysis of assets and liabilities by currency as at 31 December 2016

	Euro €	US Dollars €	British pound €	Other €	Total €
Assets					
Cash and deposits with Central Bank of Cyprus	66.996.172	208.695	123.338	9.120	**67.337.327**
Placements with banks	5.711.381	10.620.932	7.131.938	348.600	**23.812.851**
Loans and advances to customers	320.134.192	2.596.752	319.904	2.437.625	**325.488.473**
Investments available for sale	184.401.308	1.428.817	-	-	**185.830.125**
Stock of property	59.133.983	-	-	-	**59.133.983**
Investment properties	11.951.027	-	-	-	**11.951.027**
Property, equipment and intangible assets	10.367.731		-	-	**10.367.731**
Other assets	1.682.767	1.145.415	-	-	**2.828.182**
Total assets	660.378.561	16.000.611	7.575.180	2.795.345	**686.749.699**
Liabilities					
Deposit by Banks	1.501.206	-	-	-	**1.501.206**
Customer deposits	579.479.053	15.648.537	7.570.158	846.490	**603.544.238**
Other liabilities	8.809.500	405.022	-	-	**9.214.522**
	589.789.759	16.053.559	7.570.158	846.490	**614.259.966**
Equity					
Share capital & premium	87.793.798	-	-	-	**87.793.798**
Reserves	(18.385.767)	-	-	-	**(18.385.767)**
Equity attributable to the owners of the Bank	69.408.031	-	-	-	**69.408.031**
Non-controlling interests	3.081.702	-	-	-	**3.081.702**
	72.489.733	-	-	-	**72.489.733**
Total liabilities & equity	662.279.492	16.053.559	7.570.158	846.490	**686.749.699**

33. Risk management (continued)

Currency risk (continued)

Analysis of assets and liabilities by currency as at 31 December 2015

	Euro €	US Dollars €	British pound €	Other €	Total €
Assets					
Cash and deposits with Central Bank of Cyprus	19.833.662	157.098	158.569	9.572	**20.158.901**
Placements with banks	37.806.385	2.019.468	7.960.719	510.982	**48.297.554**
Loans and advances to customers	346.897.233	2.998.950	403.170	4.293.010	**354.592.363**
Investments held-to-maturity	153.309.598	3.949.367	-	-	**157.258.965**
Investments available for sale	1.739.272	-	-	-	**1.739.272**
Investment properties	47.031.030	-	-	-	**47.031.030**
Property, equipment and intangible assets	10.145.796	-	-	-	**10.145.796**
Other assets	1.792.153	1.098.882	-	-	**2.891.035**
Total assets	618.555.129	10.223.765	8.522.458	4.813.564	**642.114.916**
Liabilities					
Deposit by Banks					-
Customer deposits	558.180.475	14.853.363	8.561.162	1.128.906	**582.723.906**
Other liabilities	12.108.769	190.761	-	-	**12.299.530**
	570.289.244	15.044.124	8.561.162	1.128.906	**595.023.436**
Equity					
Share capital & premium	64.793.798	-	-	-	**64.793.798**
Reserves	(20.726.475)	-	-	-	**(20.726.475)**
Equity attributable to the owners of the Bank	44.067.323	-	-	-	**44.067.323**
Non-controlling interests	3.024.157	-	-	-	**3.024.157**
	47.091.480	-	-	-	**47.091.480**
Total liabilities & equity	617.380.724	15.044.124	8.561.162	1.128.906	**642.114.916**

33. Risk management (continued)

Liquidity Risk

Liquidity risk is the risk that the Bank is unable to fully or promptly meet current and future payment obligations as and when they fall due. This risk includes the possibility that the Bank may have to raise funding at higher cost or sell assets at a discount.

It reflects the potential mismatch between incoming and outgoing payments, taking into account unexpected delays in repayment or unexpectedly high payment outflows. Liquidity risk involves both the risk of unexpected increases in the cost of funding of the portfolio of assets and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The Bank has developed internal control processes and contingency plans for managing liquidity risk. These incorporate an assessment of expected cash flows and the availability of collateral which could be used to secure additional funding if required.

Managing Process
The Bank`s Treasury department is responsible for managing liquidity and to ensure compliance with internal and regulatory liquidity policies and provide direction as to the actions to be taken regarding liquidity availability. The Assets and Liability Committee (ALCO) reviews the liquidity position on a weekly basis and takes the necessary actions to enhance the Bank's liquidity position.

Liquidity is managed on an ongoing basis through:

(i) Liquidity policy: sets the responsibilities for managing liquidity risk as well as the framework and the limits.The policy is reviewed by ALCO at least annually, during the ILAAP review. The ALCO submits the updated policy with its recommendations to the Board through the Board Risk Committee for approval.

(ii) Liquidity limits: a number of internal and regulatory limits are monitored on a daily, monthly and quarterly basis. Where applicable, a traffic light system has been introduced for the ratios, in order to raise flags when the ratios deteriorate.

(iii) Early warning indicators: monitoring of a range of indicators for early signs of liquidity risk in the market or specific to the Bank. These are designed to immediately identify the emergence of increased liquidity risk to maximise the time available to execute appropriate mitigating actions.

(iv) Contingency Funding Plan: maintenance of a Contingency Funding Plan which is designed to provide a framework where a liquidity stress could be effectively managed. The plan sets out a series of the possible actions that can be taken to respond to liquidity stresses. This plan is reviewed by ALCO at least annually, during the ILAAP review.

(v) Recovery Plan: the Bank has developed a Recovery Plan. The key objectives are to provide the Bank with a range of options to ensure its viability in a stress, to set consistent Early Warning and Recovery Plan Indicators and to enable the Bank to be adequately prepared to respond to stressed conditions.

Monitoring Process
Daily
The daily monitoring of cash flows and highly liquid assets is important to safeguard and ensure the uninterrupted operations of the Bank's activities. Regulatory reporting department prepares a report for submission to the CBC, indicating the cash inflows and outflows observed in customer balances and other balances, as well as the opening and closing balances of cash. Also, Treasury department monitors daily and intraday the inflows and outflows in the main currencies used by the Bank.

Weekly
Regulatory reporting department prepares a weekly report of Euro and foreign currency liquidity mismatch which is submitted to the CBC.

33. Risk management (continued)

Liquidity Risk (continued)

Monthly
Regulatory reporting department prepares reports indicating compliance with internal and regulatory liquidity ratios and submits them to the ALCO, which subsequently reports to Board Risk Committee any incidents of violation. It also calculates the expected flows under a stress scenario and compares them with the projected available liquidity buffer. Regulatory reporting department reports the Liquidity Coverage Ratio (LCR) to the CBC on a monthly basis.

Annually
The Bank has completed in 2016 its Internal Liquidity Adequacy Assessment Process (ILAAP). Treasury department coordinated the preparation of the report, which was discussed at the ALCO, evaluated by the Board Risk Committee, approved by the Board of Directors and submitted to the CBC.

Analysis of financial liabilities by remaining contractual maturity:

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2016	€	€	€	€	€	€
Deposits by banks	-	-	129.481	517.922	906.364	1.553.767
Customer deposits	275.364.993	124.376.679	205.243.874	485.474	525.392	605.996.412
Other liabilities	3.268.615	-	201.172	861.827	19.819.852	24.151.466
	278.633.608	124.376.679	205.574.527	1.865.223	21.251.608	631.701.645

	On demand and up to one month	Between one and three months	Between three months and one year	Between one and five years	Over five years	Total
2015	€	€	€	€	€	€
Customer deposits	264.749.105	111.252.989	202.791.655	5.953.062	574.557	585.321.368
Other liabilities	6.547.571	-	210.957	836.725	20.044.954	27.640.207
	271.296.676	111.252.989	203.002.612	6.789.787	20.619.511	612.961.575

The table above presents the Bank's financial liabilities based on undiscounted cash flows, analysed in time bands according to the number of days remaining from 31 December until the contractual maturity date. Repayments for which notice should be given, have been placed in the relevant time bands, as if notice had been given on 31 December. The amounts in this table may not be equal to the amounts in the consolidated statement of financial position since the table above presents all cash flows (including interest) on an undiscounted basis.

The calculation of protective liquidity in euro and other currencies for supervisory purposes is submitted to the Central Bank of Cyprus every quarter, while additional information in relation to liquidity is submitted on a weekly basis. These statements are monitored by Management. The minimum regulatory ratio of liquid assets is 20% of total euro deposits while the respective regulatory ratio for foreign currencies is 70%.

33. Risk management (continued)

Liquidity Risk (continued)

The liquidity ratio in Euro was as follows:

	2016	2015
	%	%
31 December	**29,66**	23,20
Average for the year	**30,18**	26,98
Highest ratio for the year	**38,55**	29,93
Lowest ratio for the year	**26,01**	23,20

The liquidity ratio in Foreign Currencies was as follows:

	2016	2015
	%	%
31 December	**84,28**	70,00
Average for the year	**76,68**	70,00
Highest ratio for the year	**84,28**	70,00
Lowest ratio for the year	**70,00**	70,00

The foreign currency liquidity ratio is calculated using data denominated in foreign currencies other than the euro.

Other liquidity ratio requirements
In accordance with the requirements set forth by Pillar 1 of Basel III Framework known as Capital Requirement Regulation ("CRR") No 575/2013 / Capital Requirement Directive IV ("CRD IV"), the Bank has to comply with Liquidity Coverage requirement ratio (LCR) calculated as the sum of the values which cover the liquidity outflows less the liquidity inflows under stressed conditions so as to ensure that institutions maintain levels of liquidity buffers which are adequate to face any possible imbalance between liquidity inflows and outflows under stressed conditions over a period of thirty days. During times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Bank was at 623% as at 31 December 2016 compared to the regulatory liquidity requirement of 70%.

Recent developments
On the 16th of March 2016, the ECB issued a decision which was effective from the 1st of April 2016, and which stated that the Eurosystem's standard criteria and credit quality thresholds should apply in respect of marketable debt instruments issued or fully guaranteed by the Republic of Cyprus and that such debt instruments would be subject to the standard haircuts according to the ECB guidelines. This was a consequence of the completion of Cyprus economic and financial adjustment program and it effectively meant that the bonds issued by the Government of Cyprus held by the Bank would no longer be accepted as collateral for the purposes of Eurosystem monetary policy operations. This decision has led to a temporary breach of the prudential liquidity ratios of the Central Bank of Cyprus. On 2 June 2016, however, CBC issued a decision effective immediately, which allowed Cypriot banks to consider their holdings in Cyprus Government securities as liquid for prudential liquidity reporting purposes. This decision would hold for as long as the Cyprus sovereign debt was rated below investment grade (and hence non-ECB eligible) and for a maximum period of 12 months since the decision was issued, and would be subject to certain conditions being met.

Operational risk
Operational risk is the risk of loss arising from system failure, human error, fraud or external events. The Bank manages operational risk through procedures and controls it implements and also through a dedicated system for recording loss events and findings of the Risk Control Self-Assessment by the various departments/branches of the Bank. Controls include segregation of duties, controllable access, reconciliation of accounts and balances. In addition, the Bank's Internal Audit department performs periodic reviews and evaluates the efficiency of these controls and procedures. Additionally, an insurance coverage exists in order to cover unanticipated operating losses.

33. Risk management (continued)

Regulatory risk
The Bank's operations are supervised by the Central Bank of Cyprus. In carrying out its regulatory duties, the Central Bank of Cyprus follows, inter alia by the European Union's underlying legal framework, as well as the regulatory framework of Central Bank of Cyprus. Future changes in the legal or regulatory duties as a result of arrangements either by European Union or Central Bank of Cyprus, may impact the Bank's operations.

Intensity of competition
The operational environment of the Bank is highly competitive. Competition arises from commercial banks, cooperative credit institutions, and international banking units. Any intensification of competition as a result of more competitive interest rates being offered on deposits and advances compared to those offered by the Bank, may create pressure on the Bank's profitability.

Litigation risk
The Bank may, from time to time, become involved in legal or arbitration proceedings which may affect its operations and results. Litigation risk arises from pending or potential legal proceedings against the Bank (Note 27 of the consolidated financial statements) and in the event that legal issues are not properly dealt with by the Bank, resulting in the cancellation of contracts with customers thus exposing the Bank to legal actions against it.

Political risk
External factors which are beyond the control of the Bank, such as developments in the European and the global economy, as well as political developments and government actions in Cyprus may adversely affect the operations of the Bank, its strategy and prospects. Political risk factors include social developments in Cyprus, political developments in the Eurozone, the ongoing unresolved political issue of the Turkish occupied areas, and political and social unrest and political instability or military conflict in neighbouring countries and/or other overseas areas.

The exit of the UK following the EU referendum of 23 June 2016 may lead to an economic recession in the UK itself and to possible disruptions in the Eurozone with pressure to bear on the euro and the currency markets generally.
Consequences for the Cyprus economy may potentially derive from the wider implications for the UK economy and on the EU from exiting. Additionally, the exit of the UK from the EU will change the balance of power in the EU and will also exacerbate the division between the northern and southern countries.

Given the above, the Bank recognises that unforeseen political events can have negative effects on the fulfilment of contractual relationships and obligations of its customers and other counterparties which may result in a negative impact on Bank's activities, operating results and position.

34. Capital management
The main regulator that sets and monitors capital requirements for the Bank is the Central Bank of Cyprus ("CBC").

The Bank closely monitors its capital adequacy both for compliance with the requirements of the supervisory authority as well as to maintain a base to support and develop its activities and safeguard the interests of its shareholders and all other stakeholders.
As from 1 January 2014, the new Basel III Framework known as Capital Requirement Regulation ("CRR") No 575/2013 / Capital Requirement Directive IV ("CRD IV") dated 26 June 2013 became effective. CRR establishes the prudential requirements for capital, liquidity and leverage that entities need to abide by. CRD IV governs access to deposit-taking activities, internal governance arrangements including remuneration, board composition and transparency.
CRR introduces significant changes in the prudential regulatory regime applicable to banks including amended minimum capital ratios, changes to the definition of capital and the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity and funding. CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are not expected to be fully implemented until 2018.

Basel III Framework comprises of three Pillars:
- Pillar 1 – Minimum capital requirements
- Pillar 2 – Supervisory Review and Evaluation Process
- Pillar 3 – Market discipline

34. Capital management (continued)

Pillar 1 – Minimum capital requirements
Pillar 1 sets forth the guidelines for calculating the minimum capital requirements to cover the credit risk, the market risk and the operational risk.

The Bank has adopted the Standardised Approach for the calculation of the minimum capital against credit risk. Under this approach, exposures are classified in specified classes and are weighted using specific weights, depending on the class the exposures belong to and their credit rating. According to the directive, there are two methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Bank has applied the Comprehensive Approach, as this enables the fairer recognition and more accurate estimation of the Bank's capital.

Regarding market risk, the Bank has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the interest rate, equity and debt securities position, foreign exchange and price risk on derivatives using predefined models.

The Bank uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk, based on which the operational risk capital requirement is estimated using a specific percentage on the average sum of total net income on a three year basis.

Pillar 2 – Supervisory Review and Evaluation Process ("SREP")
Pillar 2 includes rules to ensure that adequate capital is in place to support any risk exposures of the Bank and requires appropriate risk management, reporting and governance policies. The Central Bank of Cyprus ("CBC"), as part of its supervisory role under Directive 2013/36 of the European Parliament and of the Council, has conducted in January 2016 its annual Supervisory Review and Evaluation Process. SREP is a holistic assessment of, amongst other things: the Bank's business model, internal governance and institution-wide control arrangements, risks to capital and adequacy of capital to cover these risks and risks to liquidity and adequacy of liquidity resources to cover these risks. The objective of SREP is for the CBC to form an up-to-date supervisory view of the Bank's risks and viability and to form the basis for supervisory measures and dialogue with the Bank.

The Bank applied the Minimum Capital Approach to determine the additional capital required to cover credit risks which are not sufficiently covered by Pillar 1 requirements, such as Residual Risk, as well as risks not recognised by Pillar 1, such as Credit Concentration Risk, Interest Rate Risk in the Banking Book and any external factors affecting the Bank.

Banks are assessing their capital needs relative to their risks with their Internal Capital Adequacy Assessment Process ("ICAAP"), while at the same time maintaining communication with supervisors on a continuous basis.

In conjunction with the ICAAP banks are required to prepare the Internal Liquidity Adequacy Assessment Process ("ILAAP"). The ILAAP acts as a control cycle through which the Bank identifies, evaluates, manages and monitors its liquidity risks. The key objective behind ILAAP is to ensure the Bank has sufficient liquidity resources to support its business and be able to withstand any adverse future conditions which may threat its liquidity position. The process is examined on an annual basis, starting from 2015 as per CBC's instructions and forms an integral part of the Bank's risk management framework, plays a key role in the strategic planning of the Bank and is used to facilitate the decision making process.
The ILAAP report is reported to the CBC and evaluated during the SREP in conjunction with the ICAAP report.

Pillar 3 – Market discipline
Pillar 3 sets out required disclosures to allow market participants to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Bank.

Based on the Central Bank Directive, disclosures by banks include information relating to their risk management objectives and policies, the composition of own funds and original and supplementary funds, their compliance with minimum capital requirements and the internal capital adequacy assessment process.

Capital position
The minimum Pillar 1 Capital Requirements based on the Capital Requirement Regulation ("CRR") No 575/2013 / Capital Requirement Directive IV ("CRD IV") of 8% can be met with 4,5% of CET 1, 1,5% with Additional Tier 1 Capital and up to 2% with Tier 2 Capital.

The Bank is also subject to additional capital requirements for risks which are not covered by the Pillar 1 capital requirements (Pillar 2 add-ons and macroprudential buffers).

34. Capital management (continued)

Capital position(continued)
Based on the provisions of the Macroprudential Oversight of Institutions Law of 2015 which came into force on 1 January 2016, the CBC is the designated Authority responsible for setting the macroprudential buffers that derive from the CRD IV. In accordance with the provisions of this law, the CBC sets, the Countercyclical Capital buffer level on a quarterly basis and based on the methodology described in this law. The Countercyclical Capital buffer has been set at 0% for year 2016 and for the first quarter of 2017.

The Capital Conservation buffer level is set by the CBC in accordance with the Business of Credit Institutions Law of 1997 to 2016. Until the amendment of the law on 3 February 2017 the Bank took into account a fully loaded Capital Conservation buffer of 2,5%. Since 3 February 2017 the Banking law has been amended and the Capital Conservation buffer for a transitional period is gradually phased-in retroactively as follows:

- From 1 January 2016 until 31 December 2016 : 0,625%
- From 1 January 2017 until 31 December 2017 : 1,25%
- From 1 January 2018 until 31 December 2018 : 1,875%
- From 1 January 2019 onwards is fully implemented: 2,5%.

Following the completion of the Supervisory Review and Evaluation Process ("SREP") of the Bank by CBC in January 2016 and the capital injection of €23 million in May 2016, the minimum Total Supervisory Capital Ratio shall always be maintained above 12,25% including a fully loaded Capital Conservation buffer of 2,5%.

With the enactment of the amendments in the Cypriot Banking Law on 3 February 2017 which is phased-in retroactively, the Capital Conservation buffer as at 31 December 2016 was 0,625% and the minimum Total Supervisory Capital Ratio is consequently reduced to 10,375%. As from 1 January 2017 the Capital Conservation buffer is 1,25% and the Bank's minimum Total Supervisory Capital ratio is 11%, which is applicable until the next SREP by CBC.

The information presented below represents the Bank's capital position under the CRR/CRD IV, including the application of the transitional arrangements as set by the CBC.

At 31 December 2016 the Common Equity Tier 1 ratio was 13,97% (2015: 8,54%), the Tier 1 ratio was 13,97% (2015: 8,54%) and the Total Capital ratio was 14,27% (2015: 8,98%).

	31 December 2016	31 December 2015
	€	€
Regulatory capital		
Transitional Common Equity Tier 1 capital (CET1)	**65.271**	40.135
Transitional Additional Tier 1 capital (AT1)	**-**	-
Transitional Tier 1 capital (T1)	**65.271**	40.135
Tier 2 capital (T2)	**1.407**	2.028
Total transitional regulatory capital	**66.678**	42.163
Risk weighted assets - credit risk	**412.596**	417.897
Risk weighted assets - operational risk	**54.563**	51.813
Risk weighted assets - market risk	**-**	-
Total risk weighted assets	**467.159**	469.710
Transitional Common Equity Tier 1 ratio	**13,97%**	8,54%
Transitional Tier 1 ratio	**13,97%**	8,54%
Transitional Total Capital Ratio	**14,27%**	8,98%

34. Capital management (continued)

Leverage Ratio
According to CRR Article 429, the leverage ratio is expressed as a percentage and calculated on a quarterly basis as an institution's capital measure divided by the institution's total exposure measure. The leverage ratio is calculated using two capital measures:
(a) Tier 1 capital: fully phased-in definition
(b) Tier 1 capital: transitional definition.

Based on both the transitional and the fully phased-in definition, as at 31 December 2016 the Leverage Ratio of the Bank was 8,05% compared to 5,25% as at 31 December 2015.

As the leverage ratio has not yet been implemented in the reporting framework of the European legislation, the calculation is still based on the Basel III framework. The minimum regulatory requirement of the leverage ratio for the transitional period from 1 January 2015 to 1 January 2017 was set at 3%.

	31 December 2016 **€**	31 December 2015 €
Transitional basis		
Capital measure (CET 1)	**65.271**	40.135
Total exposure measure	**811.024**	765.143
Leverage ratio	**8,05%**	5,25%
Fully loaded basis		
Capital measure (CET 1)	**65.271**	40.135
Total exposure measure	**811.024**	765.143
Leverage ratio	**8,05%**	5,25%

35. Related party transactions
The Bank is a subsidiary of BLC Bank SAL through its 99,25% shareholding, which is incorporated in Lebanon.
The ultimate controlling party of the Bank is Fransabank SAL through its 68,58% shareholding in BLC Bank SAL.

	2016	**2015**	**2016**	**2015**
	Number of Directors of the Bank		**€**	**€**
Loans and advances:				
To members of the Board of Directors and their related parties:				
Less than 1% of net assets per Director	11	11	**337.768**	327.502
	11	11	**337.768**	327.502
To Senior Management and their related parties			**698.051**	1.068.172
Total loans and other advances			**1.035.819**	1.395.674
Tangible securities			**2.125.706**	2.639.151
Interest income			**28.718**	51.503
Deposits:				
- members of the Board of Directors and their related parties			**1.318.998**	1.176.474
- Senior Management and their related parties			**525.054**	697.825
			1.844.052	1.874.299
Interest expense			**23.462**	28.367

35. Related party transactions (continued)

In addition, there were unutilised limits to the members of the Board of Directors, Senior Management and their connected persons amounting to €330.087 (2015: €422.401), of which €80.470 (2015: €118.084) relate to Directors and their connected persons.

Connected persons include spouses, minor children and companies in which Directors or Senior Management hold directly or indirectly at least 20% of the voting rights in a general meeting.

All transactions with non-executive members of the Board of Directors, the Bank's shareholders and their connected persons are made on normal business terms as for comparable transactions with customers of a similar credit standing. A number of credit facilities have been extended to Senior Management and their connected persons on the same terms as those applicable to the rest of the Bank's employees.

Exposures with parent company BLC Bank Sal and other group companies

	31 December 2016 €	31 December 2015 €
Interbank deposits		
BLC Bank SAL	**96.176**	561.422
Fransabank France SAL	**-**	35.032.257
	96.176	35.593.679

As at 31 December 2016 there was no interbank lending from BLC Bank SAL or any other group company.

Fees and emoluments of Directors and Senior Management

	31 December 2016 €	31 December 2015 €
Directors' emoluments		
Member Fees:		
Non executives	**315.255**	218.685
Executives	**-**	-
Total member fees	**315.255**	218.685
Executive directors' emoluments:		
Salaries and other short-term benefits	**264.857**	265.189
Employer's contributions	**31.270**	31.270
Retirement benefit plan costs	**24.783**	23.478
Total executive directors' emoluments	**320.910**	319.937
Total Board of Directors emoluments	**636.165**	538.622
Senior Management emoluments:		
Salaries and other short-term benefits	**810.065**	854.482
Employer's contributions	**109.861**	114.725
Retirement benefit plan costs	**70.553**	70.892
Total Senior Management emoluments	**990.479**	1.040.099
Total emoluments	**1.626.644**	1.578.721

36. Special Purpose Entities

The special purpose entities which are included in the Financial Statements of the Bank as at 31 December 2016 are as follows:

Name	Country of incorporation	Participation	Nature of operations
Imagetech Limited	Cyprus	100%	Note (i)
Averrhoa Limited	Cyprus	100%	Note (ii)
Rowington Ventures Limited	Cyprus	100%	Note (ii)
Lardonia Limited	Cyprus	100%	Note (ii)
Sabatia Limited	Cyprus	100%	Note (ii)
Serenoa Limited	Cyprus	100%	Note (ii)
Shortia Limited	Cyprus	100%	Note (ii)
Delaway Limited	Cyprus	100%	Note (i)
Cotidie Ventures Limited	Cyprus	100%	Note (ii)
Olcinia Holdings Limited	Cyprus	100%	Note (i)
Crantenia Ventures Limited	Cyprus	100%	Note (ii)
Osperus Holdings Limited	Cyprus	100%	Note (i)
Kantadia Ventures Limited	Cyprus	100%	Note (ii)
Dusanic Holdings Limited	Cyprus	100%	Note (i)
Macerio Limited	Cyprus	100%	Note (ii)
Perekin Holdings Limited	Cyprus	100%	Note (i)
Azulito Ventures Limited	Cyprus	100%	Note (ii)
Perequito Holdings Limited	Cyprus	100%	Note (i)
Bequelia Ventures Limited	Cyprus	100%	Note (ii)
Serissa Holdings Limited	Cyprus	100%	Note (i)
Tipuana Ventures Limited	Cyprus	100%	Note (ii)
Fantinaco Limited	Cyprus	100%	Note (ii)
Naila Holdings Limited	Cyprus	100%	Note (i)
Snaresbrook Ventures Limited	Cyprus	100%	Note (ii)
Lewisia Holdings Limited	Cyprus	100%	Note (i)
Scaevola Ventures Limited	Cyprus	100%	Note (ii)
Ailanthus Holding Limited	Cyprus	100%	Note (ii)
Conaria Holding Limited	Cyprus	100%	Note (ii)
Pandingmor Limited	Cyprus	75,01%	Note (iii)

i. Intermediate holding company
ii. Property ownership and management
iii. Pandingmor Limited holds a commercial property under a long term lease, part of which is intented to be used by the Bank as its Head office. The specific part of the property which is to be used by the Bank has been classified as 'Property and equipment' (Note 16) whilst the remaining part has been classified as 'Investment property' in the consolidated statement of financial position.

37. Agreements with a major shareholder

Except for the disclosures in Note 35, at the reporting date and at the approval date of the financial statements there were no other agreements between the Bank and its major shareholder who owns more than 20% of the share capital.

38. Operating environment

In March 2016 Cyprus exited the economic adjustment program utilising approximately €7,3 billion out of the €10 billion available funding from the European Stability Mechanism (ESM) and the International Monetary Fund (IMF). The country has been resilient following the financial crisis and has implemented tough austerity measures to restructure its economy.

Cyprus real GDP grew by 2,8% as per the Cyprus Statistical Service in 2016 compared to 1,7% growth for year 2015. The recovery in economic activity is broad based, with tourism and retail trade still being the main contributors to growth. Unemployment dropped to 13,3% during 2016 compared to an average unemployment rate of 14,9% for year 2015 as per the Cyprus Statistical Service. Tourist arrivals have recorded an increase of 19,8% during year 2016 compared to the prior year reaching the record high of 3,2 million tourist arrivals for the whole year of 2016 as per the Cyprus Statistical Service. In the property market, the residential property price index as per the Central Bank continued to decline year on year but at a slow pace.

Deposits in Cyprus Banks are continuing to grow, reflecting rising confidence in the Cypriot banking system. Following the significant fall in 2013 deposits stabilised in 2015 and grew by 6,6% in 2016 as per the Cyprus Central Bank.

Despite the important steps taken towards restoring the economic climate, downsize risks still remain associated with the high volume of non performing exposures, the loss of momentum in structural reforms and return of inflation.

A deteriorating external environment would also pose risks for an open economy like Cyprus. These would involve a slowdown of output growth in the UK and a further deterioration of the pound against euro resulting from the political and economic uncertainty following the Brexit vote and which are directly expected to affect the Cyprus economy through weaker exports mainly tourism services. Political uncertainty in Europe triggered by a British exit and/ or by the refugee crisis could also lead to increased economic uncertainty and undermine economic confidence.

Developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored in order to assess the potential prospects that are being developed.

Cyprus has an open free market service-based economy with a long record of successful economic performance. Though the economy is still tackling structural challenges, the strong business environment, highly educated workforce and favourable tax regime remain in place. Looking ahead, with measures to reform public spending, accelerate initiatives to boost investment, develop the investment fund sector and push forward with natural gas exploitation, there is scope for cautious optimism for Cyprus to return to prosperity.

All international credit rating agencies have upgraded the country's rating during 2016 and 2017 with S&P Global rating being BB+ stable, Moody's Investors Service being B1 positive and Fitch Ratings being BB- positive. The positive outlook reflects their view that they could upgrade Cyprus within the next 12 months if its reduction of high non performing loans accelerates, indicating a convergence of Cyprus' credit and monetary conditions.

39. Events after the reporting date

There were no other significant events after the end of the reporting date which have a bearing on the understanding of the consolidated financial statements.

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Deloitte Limited
Maximos Plaza
Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O. Box 58466
CY-3734 Limassol, Cyprus

Tel: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

Independent Auditor's Report

To the Members of USB BANK PLC

Report on the financial statements

Opinion

We have audited the accompanying consolidated financial statements of **USB BANK PLC** (the "Bank") and its subsidiaries (together with the Bank, the "Group"), which are presented in pages 30 to 85 and comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Responsibilities of the Board of Directors for the Consolidated Financial Statements

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

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

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

Deloitte Limited
Maximos Plaza
Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O. Box 58466
CY-3734 Limassol, Cyprus

Tel: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

Independent Auditor's Report (continued)

To the Members of USB BANK PLC

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

Deloitte Limited
Maximos Plaza
Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O. Box 58466
CY-3734 Limassol, Cyprus

Tel: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

Independent Auditor's Report (continued)

To the Members of USB BANK PLC

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal Requirements

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

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Bank, so far as appears from our examination of these books.
- The Bank's consolidated financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the management report, whose preparation is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.
- In our opinion, the information included in the corporate governance statement in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113, and which is included as a specific section of the management report, have been prepared in accordance with the requirements of the Cyprus Companies Law, Cap, 113, and is consistent with the consolidated financial statements.

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Deloitte Limited
Maximos Plaza
Tower 1, 3rd Floor
213 Arch. Makariou III Avenue
CY-3030 Limassol, Cyprus
Mail: P.O. Box 58466
CY-3734 Limassol, Cyprus

Tel: +357 25 86 86 86
Fax: +357 25 86 86 00
infolimassol@deloitte.com
www.deloitte.com/cy

Independent Auditor's Report (continued)

To the Members of USB BANK PLC

Report on Other Legal Requirements (continued)

- In our opinion, and in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the corporate governance statement in relation to the information disclosed for items (iv) and (v) of subparagraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

- In our opinion, the corporate governance statement includes all information referred to in subparagraphs (i), (ii), (iii) and (vi) of paragraph 2(a) of Article 151 of the Cyprus Companies Law, Cap. 113.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 to 2016 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Alexis Agathocleous
Certified Public Accountant and Registered Auditor
for and on behalf of

Deloitte Limited
Certified Public Accountants and Registered Auditors

Nicosia, 31 May 2017

Credit Risk

In February 2014, the Central Bank of Cyprus issued to credit institutions the Directives on Loan Impairment and Provisioning Procedures of 2014 and 2015, which provides guidance to banks for loan impairment policy and procedures for provisions. The purpose of this Directive is to ensure that credit institutions have in place adequate provisioning policies and procedures for the identification of credit losses and prudent application of IFRSs in the preparation of their financial statements.

The Directive requires certain disclosures in relation to the loan portfolio quality, provisioning policy and levels of provision. In addition to the disclosures presented in Notes 13 and 33 to the financial statements and as per the circular issued on 17 February 2015 by CBC, the following tables are also disclosed.

TABLE A: Analysis of the loan portfolio according to performance status for balances as at 31 December 2016

	Gross carrying amount of loans and advances				Accumulated provision for impairment			
			Of which exposures with forbearance measures				Of which exposures with forbearance measures	
		Of which non-performing exposures		Of which non-performing exposures		Of which non-performing exposures		Of which non-performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	-	-	-	-	-	-	-	-
Other financial corporations	903	100	-	-	86	78	-	-
Non-financial corporations	289.906	182.488	68.090	61.412	68.710	67.975	12.318	12.214
Of which: Small and Medium-sized Enterprises	265.235	175.978	68.090	61.412	65.719	65.071	12.318	12.214
Of which: Commercial real estate	52.300	28.627	15.726	14.081	3.897	3.899	857	851
By sector								
Construction	100.656	83.330			29.648			
Wholesale and retail trade	55.097	28.243			14.001			
Real estate activities	40.331	25.937			9.578			
Accomodation and food service activities	34.366	17.913			4.717			
Transportation and storage	16.804	6.973			1.936			
Other sectors	42.652	20.092			8.830			
Households	146.199	88.419	18.775	16.166	42.724	42.223	3.155	3.030
Of which: Residential mortgage loans	68.412	36.755	8.338	7.386	16.966	16.851	1.548	1.505
Of which: Credit for consumption	46.995	31.456	6.887	5.700	13.828	13.620	646	582

Credit risk (continued)

TABLE B: Analysis of the loan portfolio on the basis of their origination date for balances as at 31 December 2016

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	43.074	17.601	(1.947)	31.662	16.993	(1.904)	-	-	-	11.417	661	(39)
1 - 2 years	24.339	6.068	(2.123)	15.631	2.336	(1.112)	-	-	-	8.785	3.749	(1.025)
2 - 3 years	24.993	10.629	(2.021)	16.289	5.343	(1.203)	-	-	-	8.733	5.291	(830)
3 - 5 years	114.808	80.288	(27.669)	79.477	60.320	(17.734)	-	-	-	35.460	19.998	(9.984)
5 - 7 years	79.352	49.189	(18.741)	51.092	33.040	(12.396)	22	-	-	28.271	16.218	(6.429)
7 - 10 years	87.368	65.040	(34.696)	63.655	46.827	(25.116)	31	31	(29)	23.670	18.174	(9.530)
More than 10 years	63.074	42.193	(23.079)	32.101	17.688	(8.511)	850	69	(48)	29.964	24.270	(14.345)
Total	**437.008**	**271.008**	**(110.276)**	**289.907**	**182.487**	**(67.976)**	**903**	**100**	**(77)**	**146.300**	**88.361**	**(42.182)**

*The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. contract date

TABLE A: Analysis of the loan portfolio according to performance status for balances as at 31 December 2015

	Gross carrying amount of loans and advances				Accumulated provision for impairment			
			Of which exposures with forbearance measures				Of which exposures with forbearance measures	
		Of which non-performing exposures		Of which non-performing exposures		Of which non-performing exposures		Of which non-performing exposures
	€000	€000	€000	€000	€000	€000	€000	€000
General governments	-	-	-	-	-	-	-	-
Other financial corporations	1.243	95	-	-	69	53	-	-
Non-financial corporations	314.260	206.004	59.730	55.788	67.781	67.027	12.239	12.225
Of which: Small and Medium-sized Enterprises	288.009	198.723	59.474	55.788	65.140	64.710	12.239	12.225
Of which: Commercial real estate	44.786	22.215	2.506	1.155	4.144	4.086	487	481
By sector								
Construction	111.594	96.577			29.110			
Wholesale and retail trade	62.830	32.264			15.509			
Real estate activities	44.871	36.050			9.688			
Accomodation and food service activities	33.772	16.324			3.653			
Transportation and storage	16.798	6.613			2.769			
Other sectors	44.395	18.176			7.052			
Households	143.135	84.036	19.931	16.152	36.196	35.651	2.571	2.428
Of which: Residential mortgage loans	67.482	34.967	7.821	6.683	14.671	14.620	1.161	1.142
Of which: Credit for consumption	45.573	29.261	6.115	4.994	11.527	11.311	556	530

Credit risk (continued)

TABLE B: Analysis of the loan portfolio on the basis of their origination date for balances as at 31 December 2015

Total loans granted	Gross carrying amount of total loans			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment	Total	Non performing loans	Accumulated impairment
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
Within 1 year	26.590	6.231	(1.939)	16.864	2.658	(1.250)	-	-	-	9.726	3.573	(689)
1 - 2 years	55.897	41.224	(8.253)	42.604	32.449	(7.494)	-	-	-	13.293	8.775	(759)
2 - 3 years	44.664	28.200	(4.408)	32.085	24.024	(3.806)	-	-	-	12.579	4.176	(602)
3 - 5 years	141.804	90.372	(29.197)	102.773	69.498	(19.292)	48	-	-	38.983	20.874	(9.905)
5 - 7 years	77.562	57.055	(21.848)	52.030	41.145	(14.523)	-	-	-	25.532	15.910	(7.325)
7 - 10 years	51.499	31.704	(18.233)	34.111	20.184	(13.175)	31	30	(8)	17.357	11.490	(5.050)
More than 10 years	60.623	35.350	(18.854)	33.791	16.045	(7.488)	1.164	65	(45)	25.668	19.240	(11.321)
Total	**458.639**	**290.136**	**(102.732)**	**314.258**	**206.003**	**(67.028)**	**1.243**	**95**	**(53)**	**143.138**	**84.038**	**(35.651)**

*The origination date of new or restructured credit facilities is defined as the date of loan agreement i.e. contract date

HEAD OFFICE
83 Digeni Akrita Ave. 5th floor
1070 Nicosia.
Tel: 22883333, Fax: 22875899
e-mail: usbmail@usbbank.com.cy

SWIFT: UNVKCY2N
P.O. Box 28510, 2080 Nicosia

CUSTOMER TELESERVICE CENTRE
6 Demetsanis St., 1070 Nicosia
Tel.: 22883333
From abroad.: +357-22883333,
Fax: +35722875899

CUSTOMER SERVICE SECTORS NICOSIA

KENNEDY BRANCH
12-14 Kennedy Ave., 1087 Nicosia
Tel: 22883601, Fax: 22754387

DIGENI AKRITA BRANCH
83 Digeni Akrita Ave., 1070 Nicosia
Tel: 22883342, Fax: 22458753

MAKEDONITISSA BRANCH
25 Elia Papakyriakou Str., Makedonitissa
2415 Engomi, Nicosia
Tel: 22819870, Fax: 22356388

PALLOURIOTISSA BRANCH
39 Corner Pouliou & Kapota Str. & Ay. Andrea Str.
Pallouriotissa, 1040 Nicosia
Tel: 22877268, Fax: 22730410

LATSIA BRANCH
90 Arch. Makarios III Ave.
2224 Latsia
Tel.: 22878737, Fax: 22878738

NICOSIA CORPORATE UNIT
83 Digeni Akrita Ave.
2nd floor, 1070 Nicosia
Tel.: 22883510, Fax: 22460398

CUSTOMER SERVICE SECTORS LIMASSOL

KOLONAKIOU BRANCH
12 Kolonakiou Ave., Shop D
4103 Ay. Athanasios
Tel: 25430222, Fax: 25430305

OMONIA BRANCH
11 Omonias Ave., 3052 Limassol
Tel: 25819724, Fax: 25819730

VICTORY BRANCH
205 Makariou Ave., 3030 Limassol
Tel: 25822770, Fax: 25822875

LIMASSOL CORPORATE UNIT
205 Arch. Makarios III Avenue, 3030 Limassol
Tel.: 25822877, Fax: 25822879

CUSTOMER SERVICE SECTORS PAPHOS

APOSTOLOU PAVLOU BRANCH
23 Apostolou Pavlou Ave., 8046 Paphos
Tel: 26941777, Fax: 26944120

EV.PALLIKARIDES BRANCH
121 Ev. Pallikarides Ave., 8010 Paphos
Tel: 26819111, Fax: 26911450

POLIS CHRYSOCHOUS BRANCH
3 Mariou Ave., Block A No.1
8820 Paphos
Tel: 26 815781, Fax: 26815782

PAPHOS CORPORATE UNIT
23 Apostolou Pavlou Avenue, 8046 Paphos
Tel.: 26818550, Fax: 26818553

CUSTOMER SERVICE SECTORS AMMOCHOSTOS

PARALIMNI BRANCH
129, 1st April Ave., 5280 Paralimni
Tel: 23812255, Fax: 23812260

AYIA NAPA BRANCH
21 Ayias Mavris str. 5330 Ayia Napa
Tel: 23819260, Fax: 23724055

PROTARAS BRANCH (24hour ATM ONLY)
13 Protaras Avenue. shop 4,
5296 Paralimni

AMMOCHOSTOS CORPORATE UNIT
129 1st April Avenue, 5280 Paralimni
Tel.: 23812266, Fax: 23812261

CUSTOMER SERVICE SECTORS LARNACA

LARNACA BRANCH
2 Yiannos Kranidiotis Ave,
Fire Department traffic lights
6045 Larnaca
Tel: 24664255, Fax: 24664279

LARNACA CORPORATE UNIT
2 Yiannos Kranidiotis Ave,
Fire Department traffic lights
6045 Larnaca
Tel: 24664255, Fax: 24664279

INTERNATIONAL BUSINESS DIVISION

NICOSIA INTERNATIONAL BUSINESS UNIT
12-14 Kennedy Ave.
1st floor, 1087 Nicosia
Tel.: 22883755, Fax: 22754388

LIMASSOL INTERNATIONAL BUSINESS UNIT
12 Kolonakiou Avenue, Shop D
4103 Ayios Athanasios
Tel.: 25314160, Fax: 25314172

MOSCOW REPRESENTATIVE OFFICE
Presnenskaya Nab. 10,
Block C, Office 549, 123317, Moscow
Tel: +7 495 651 6690

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