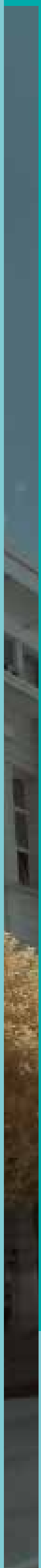
Cyprus Cooperative Bank



Consolidated Financial Information

FOR THE NINE MONTHS ENDED
30 SEPTEMBER 2017

Nicosia, 29 November 2017

Consolidated Financial Information

For the nine months ended 30 September 2017

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Officers

Committee:

George Hadjinicolas	- Independent non-Executive Chairman
Lambros Pieri	- Independent non-Executive Vice Chairman
Panicos Pouros	- Independent non-Executive Member – Senior Independent Officer
George Kittos	- Independent non-Executive Member
Charalambos Christodoulides	- Independent non-Executive Member
Kypros Ellina	- Non-Independent non-Executive Member
Adonis Pegasiou	- Non-Independent non-Executive Member
Nicholas Hadjiyiannis	- Executive Member
Stavros Iacovou	- Executive Member

Company Secretary:

Pambos Pantziaros

Chief Executive Officer:

Nicholas Hadjiyiannis

Senior Management:

Stavros Iacovou	- Senior Manager, Operations and Administrative Services Division
Varnavas Kourounas	- Senior Manager, NPL Management Senior Division
Marios Papadopoulos	- Senior Manager, Market Operations Senior Division
Lambros Papalambrianou	- Chief Financial Officer
Charalambos Frantzeskos	- Senior Manager, Technology Senior Division
Yiannos Stavrinides	- Strategy and Transformation Division Manager
Maria Agathocleous	- Chief Risk Officer
Maria Aristidou	- Chief Compliance Officer
Maria Ioannou	- Chief Internal Audit Officer
Christos Koutsioupis	- Head of Information Security Unit

Registered office:

8 Gregori Afxentiou Street
1096 Nicosia
P.O. 24537
1389 Nicosia, Cyprus

CONSOLIDATED INCOME STATEMENT
For the nine months ended 30 September 2017

	Note	30 September 2017 €'000	30 September 2016 €'000
Continuing Operations			
Interest income		**306.843**	350.746
Interest expense		**(118.522)**	(136.832)
Net interest income		**188.321**	213.914
Income from fees and commissions		**25.373**	24.605
Expenses for fees and commissions		**(1.828)**	(1.266)
Other net gains / (losses)	3	**85**	(3.957)
Other income		**6.174**	3.710
Total net income		**218.125**	237.006
Staff costs	4	**(69.770)**	(74.798)
Depreciation		**(6.764)**	(6.338)
Other operating expenses	5	**(46.286)**	(51.632)
Total expenses		**(122.820)**	(132.768)
Operating profit before provisions for impairment		**95.305**	104.238
Impairment charge on financial assets available for sale	6	**(7.458)**	-
Loss associated with the loss of control in subsidiaries	11	**(2.903)**	-
Increase in provisions for impairment of loans and other advances and other provisions to cover credit risk	10, 15	**(149.488)**	(44.744)
(Loss)/profit before tax		**(64.544)**	59.494
Taxation	7	**(188)**	(10.387)
Net (loss)/profit for the period from continuing operations		**(64.732)**	49.107
Discontinued Operations			
Net Profit for the period from discontinued operations	9	**1.415**	4.783
Net (loss)/profit for the period		**(63.317)**	53.890
(Loss)/profit for the period attributable to:			
Equity holders of the Bank		**(63.314)**	52.587
Non-controlling interests		**(3)**	1.303
		(63.317)	53.890
(Basic and diluted loss) / basic and diluted profit per share (€cent) from continuing and discontinued operations attributable to the equity holders of the Bank	8	**(1,05)**	0,87
(Basic and diluted loss) / basic and diluted profit per share (€cent) from continuing operations attributable to the equity holders of the Bank	8	**(1,07)**	0,80

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2017

	Note	**30 September 2017 €'000**	30 September 2016 €'000
Net (loss)/profit for the period		**(63.317)**	53.890
Other comprehensive income:			
Items that will not be reclassified in subsequent periods to profit or loss:			
Change in the fair value of land and buildings		**(49)**	(2.108)
Tax on other comprehensive income	7	**25**	983
		(24)	(1.125)
Items that may be reclassified in subsequent periods to profit or loss:			
Financial assets available for sale - fair value gains / (losses)		**34.705**	(1.553)
		34.705	(1.553)
Other comprehensive income / (expense) for the period, net of tax		**34.681**	(2.678)
Total comprehensive (expense) / income for the period		**(28.636)**	51.212
Total comprehensive (expense) / income for the period attributable to:			
Equity holders of the Bank		**(28.616)**	49.807
Non-controlling interests		**(20)**	1.405
		(28.636)	51.212

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 September 2017

	Note	**30 September 2017 €'000**	31 December 2016 €'000
ASSETS			
Cash		**112.341**	105.571
Deposits with central banks		**3.181.253**	3.733.233
Deposits with other banking institutions		**42.580**	43.656
Loans and other advances to customers	10	**8.374.835**	8.761.556
Inventories		**1.900**	2.226
Properties held for sale		**161.058**	121.825
Financial assets available for sale		**1.005.808**	682.526
Investment properties		**230.824**	238.650
Property, plant and equipment		**236.047**	239.427
Intangible assets		**6.082**	4.904
Deferred tax assets		**38.121**	38.121
Other assets		**32.274**	45.525
		13.423.123	14.017.220
Non-current assets and disposal groups held for sale	13.2	**27.909**	83.571
Total assets		**13.451.032**	14.100.791
LIABILITIES			
Amounts due to other banking institutions		**80.370**	84.300
Deposits and other customer accounts		**11.971.378**	12.567.961
Other loans		**21.192**	21.202
Loan for the repayment of refugee deposits		**36.534**	36.534
Deferred tax liabilities		**35.376**	35.409
Other liabilities		**125.608**	118.189
		12.270.458	12.863.595
Non-current liabilities and disposal groups held for sale	13.2	**2.348**	11.695
Total liabilities		**12.272.806**	12.875.290
EQUITY			
Share Capital	12	**1.690.113**	1.690.113
Reserves		**(519.251)**	(487.856)
Equity attributable to equity holders of the Bank		**1.170.862**	1.202.257
Non-controlling interests		**7.364**	23.244
Total equity		**1.178.226**	1.225.501
Total equity and liabilities		**13.451.032**	14.100.791
Contingent liabilities and commitments	15	**459.034**	468.927

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the nine months ended 30 September 2017

	Share Capital €'000	Prepaid Share Reserve €'000	Fair value reserve-land and buildings €'000	Fair value reserve-financial assets available-for-sale €'000	Merger Reserve €'000	Statutory reserve €'000	Dilution of shares nominal value reserve €'000	Profit available for distribution €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance at 1 January 2017	1.690.113	-	141.821	34.275	44.720	(794.395)	85.723	-	1.202.257	23.244	1.225.501
Total comprehensive income/(expenses)											
Net loss for the period	-	-	-	-	-	-	-	(63.314)	(63.314)	(3)	(63.317)
Other comprehensive income/(expenses), net of tax	-	-	(7)	34.705	-	-	-	-	34.698	(17)	34.681
Transfer from fair value reserve – land and buildings to profit available for distribution	-	-	(1.006)	-	-	1.006	-	-	-	-	-
	-	-	(1.013)	34.705	-	1.006	-	(63.314)	(28.616)	(20)	(28.636)
Transactions with owners of the Bank											
Transfer of Loss for the period	-	-	-	-	-	(63.314)	-	63.314	-	-	-
	-	-	-	-	-	(63.314)	-	63.314	-	-	-
Changes in ownership interests in subsidiaries											
Other transfers	-	-	(25.199)	-	-	22.420	-	-	(2.779)	(15.860)	(18.639)
Balance at 30 September 2017	1.690.113	-	115.609	68.980	44.720	(834.283)	85.723	-	1.170.862	7.364	1.178.226

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
For the nine months ended 30 September 2016

	Share Capital €'000	Prepaid Share Reserve €'000	Fair value reserve-land and buildings €'000	Fair value reserve-financial assets available-for-sale €'000	Merger Reserve €'000	Statutory €'000	Dilution of shares nominal value reserve €'000	Profit available for distribution €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance at 1 January 2016 (restated)	1.515.113	175.000	145.810	51.654	43.913	(803.956)	85.723	-	1.213.257	27.676	1.240.933
Total comprehensive income/(expense)											
Net profit for the period	-	-	-	-	-	-	-	52.587	52.587	1.303	53.890
Other comprehensive income/(expenses), net of tax	-	-	(762)	(2.018)	-	-	-	-	(2.780)	102	(2.678)
Transfer from fair value reserve – land and buildings to profit available for distribution	-	-	(94)	-	-	94	-	-	-	-	-
	-	-	(856)	(2.018)	-	94	-	52.587	49.807	1.405	51.212
Transactions with owners of the Bank											
Issue of Shares	369.712	(175.000)	-	-	-	-	(194.712)	-	-	-	-
Dilution of shares nominal value	(194.712)	-	-	-	-	-	194.712	-	-	-	-
Transfer of profit for the period	-	-	-	-	-	52.587	-	(52.587)	-	-	-
	175.000	(175.000)	-	-	-	52.587	-	(52.587))	-	-	-
Changes in ownership interests in subsidiaries											
Other transfers	-	-	2.199	288	-	2.669	-	-	5.156	(4.710)	446
Balance at 30 September 2016	1.690.113	-	147.153	49.924	43.913	(748.606)	85.723	-	1.268.220	24.371	1.292.591

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION
For the nine months ended 30 September 2017

1. Basis of preparation

The Cyprus Cooperative Bank ("CCB") publishes certain unaudited financial information, including statistical data or clarifications of this information. CCB takes reasonable efforts to ensure the accuracy of the information, but these may be differentiated in the context of the preparation of the audited financial statements. The comparative results were adjusted for changes in the presentation of the period and for changes in the financial statements. The comparative consolidated statement of financial position is based on the audited consolidated results for the year ended 31 December 2016.

2. Segmental analysis

	Banking, financial and insurance services €'000	Trading activities €'000	Transactions between segments €'000	Total €'000
Nine months ended 30 September 2017				
Net interest income/(expenses)	188.422	(101)	-	188.321
Net fees and commissions income	23.545	-	-	23.545
Other income/(losses)	6.322	9.638	(115)	15.845
Total net income	218.289	9.537	(115)	227.711
Staff costs	(69.732)	(2.471)	-	(72.203)
Depreciation	(6.664)	(607)	507	(6.764)
Other operating expenses	(46.743)	(3.180)	115	(49.808)
Total expenses	(123.139)	(6.258)	622	(128.775)
Operating profit before provisions for impairment	95.150	3.279	507	98.936
Impairment charge on financial assets available for sale	(7.458)	-	-	(7.458)
Loss associated with the loss of control in subsidiaries	(2.903)	-	-	(2.903)
Increase in provisions for impairment of loans and other advances and other provisions to cover credit risk	(149.488)	-	-	(149.488)
Profit/(loss) before tax	(64.699)	3.279	507	(60.913)

2. Segmental analysis (continued)

	Banking, financial and insurance services €'000	Trading activities €'000	Transactions between segments €'000	Total €'000
Nine months ended 30 September 2016				
Net interest income/(expenses)	214.042	(128)	-	213.914
Net fees and commissions income	23.335	4	-	23.339
Other income/(losses)	(777)	13.270	(130)	12.363
Total net income	236.600	13.146	(130)	249.616
Staff costs	(74.252)	(3.545)	-	(77.797)
Depreciation	(6.051)	(711)	-	(6.762)
Other operating expenses	(51.749)	(3.844)	130	(55.463)
Total expenses	(132.052)	(8.100)	130	(140.022)
Operating profit before provisions for impairment	104.548	5.046	-	109.594
Increase in provisions for impairment of loans and other advances	(44.744)	-	-	(44.744)
Profit before tax	59.804	5.046	-	64.850

3. Other net gains / (losses)

	30 September 2017 €'000	30 September 2016 €'000
Net loss from disposal of property plant and equipment	**(1.368)**	(342)
Net gain/(loss) from disposal of property held for sale	**1.036**	(455)
Net gain/(loss) from disposal of investment properties	**722**	(27)
Net fair value loss on investment properties	**-**	(6.942)
Net gain from disposal of financial assets available for sale	**-**	5.704
Net loss from disposal of inventories	**(278)**	-
Net fair value loss on property held for sale	**-**	(733)
Impairment charge on property, plant and equipment	**(27)**	(1.065)
Other losses	**-**	(97)
	85	(3.957)

During the period ended 30 September 2016 a gain was recognized for the disposal of participation interest in Visa Europe Limited for an amount of €5.8 million.

4. Staff Costs

	30 September 2017 €'000	30 September 2016 €'000
Wages and Salaries	**58.310**	59.976
Social Insurance and other Government funds	**5.585**	5.614
Other Contributions to other funds	**2.554**	2.772
Special Contribution	**-**	277
Contributions to provident fund	**2.735**	2.750
Costs for voluntary retirement plan	**4**	2.893
	69.188	74.282
Other staff costs	**582**	516
	69.770	74.798
Number of employees at the end of the period (including Committee Members in their executive capacity)	**2.902**	2.977

The Group, other than the mandatory contributions to Social Insurance and other Government funds, based on the collective work agreements, contributes to the following which are included in other contributions to other funds:

a) Medical scheme:
Medical scheme is provided to employees, as follows:
- Through the Health Fund of the Cyprus Bank Workers Union to which the Group contributes a defined contribution of 2,50% on the total emoluments of the year.
- Through the Pancyprian Cooperative Health Fund, to which the Group contributes a defined contribution of 4% on the total emoluments of the year.
- Through predefined insurance plans of companies represented by the Group.

b) Life insurance premium:
Group life insurance is provided to employees through predefined schemes of Insurance Companies which are represented by the Group.

In addition, the Group operates defined contribution plans, the employees' Provident Funds, which prepare separate financial statements and provide their members with defined benefits upon retirement or early termination of service pursuant to their Articles of Association. The employer's current contribution is 7% for the Bank and 5% for the CCIs. The equivalent contribution for the employee is 3-10% for the Bank and 3-12% for the CCIs.

<u>CCS Voluntary Retirement Plan:</u>

On 16 August 2016, the Group established the Voluntary Retirement Plan, which ended on 15 September 2016.
The Plan was accepted by 78 individuals from the CCS, of which 58 people from the Credit Sector and 20 people from the Commercial Sector, whose activities are gradually being phased out.

The total cost of the Plan amounted to €4.2 million. This amount, in addition to the compensation amount corresponding to each member of staff on the basis of the provisions of the Plan, includes an estimate of the cost of the additional benefits granted to the staff that accepted the Plan and relate to:

- medical care, for a period of three years from the date of departure or until the normal retirement date – whichever is the soonest,
- life insurance coverage for a period of three years from the date of departure or until the normal retirement date – whichever is the soonest, and
- payment of the transferred annual leave of up to two years including any outstanding balance of 2016 up to the date of departure.

The first two benefits cease to apply in the case where the staff member who accepted the Plan is employed in another organization.

5. Other operating expenses

	30 September 2017 €'000	30 September 2016 €'000
Taxes and licenses	**400**	1.078
Electricity	**1.512**	2.131
Cleaning	**1.122**	895
Insurance premiums	**1.397**	1.781
Repairs and renovations	**611**	979
Telephone and postage	**2.893**	1.128
Stationery and printing	**1.961**	2.163
Maintenance of equipment	**112**	575
Other consultancy fees	**929**	1.053
Other professional fees	**6.434**	9.229
Special levy on deposits	**13.901**	14.104
Remuneration of Group's non-executive Committee members	**330**	280
Transportation costs	**558**	571
Advertising	**1.819**	1.410
Rents	**598**	591
Security expenses	**1.033**	830
Professional subscriptions	**826**	589
Valuation expenses	**730**	1.749
Other expenses	**9.120**	10.496
	46.286	51.632

According to the "Imposition of Special Tax on Credit Institution Law of 2011 to 193 (I) / 2015" each credit institution is obliged to pay special tax calculated on the total deposits of each credit institution in the Republic on a quarterly basis, as these were recorded at the end of the previous quarter, at the rate of 0,0375%. From 1 January 2015 until 31 December 2021, 35/60 of the total revenue accruing from the submitted special tax will be transferred to an account held at the Central Bank for the benefit of the Recapitalization Fund, which is set up under the provisions of the "Establishment and Operation of the Independent Fund for Recapitalization Law of 2015". From 1 January 2022 onwards, all revenue from the special tax will be transferred to the Fixed Fund.

The Special Deposit Tax is calculated quarterly based on the deposits of credit institutions in the Republic at the end of the previous quarter, with a percentage of 0,0375%. The special tax charged on other operating expenses for the nine months ended 30 September 2017 amounts to €13.901 thousand (September 2016: €14.104 thousand).

6. Impairment in financial assets available for sale

During the period, an impairment loss was recognized in the value of the investment in Cooperative Central Holdings Limited of €7.5 million.

7. Tax

Income tax expense comprises of current and deferred tax. It is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in profit or loss and other comprehensive income. Current taxation represents the amount of the tax liability which relates to the taxable profit of the period, using the tax rates that have been enacted, or substantially enacted, by the reporting date of the consolidated statement of financial position and any adjustments to tax payable in respect of prior periods. The corporation tax rate is 12,5%. The Group is subject to tax on income arising from transactions with non-members.

7. Tax (continued)

In accordance with article 13 of the Income Tax Law 118(I)/02, any tax losses of the Group companies in Cyprus which are not offset against taxable profits of other Group companies in Cyprus, are carried forward and offset against future taxable profits. Based on an amendment to the Income Tax Law issued on 21 December 2012, tax losses for the years from 2006 onwards, can be carried forward and set off only against taxable profits for the next five years.

Gross rents (minus 25%) received by the Group are subject to defense contribution at the rate of 3%.

8. (Loss)/profit per share

(Basic and diluted loss) / basic and diluted profit per share
The amounts of (basic and diluted loss)/basic and diluted profit per share is based on the (loss)/profit attributable to equity holders of the Bank, the weighted average number of issued shares as at the period end and the weighted average number of issued shares during the period is as follows:

	30 September 2017			30 September 2016		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations	Discontinued operations	Total
(Loss)/profit attributable to equity holders of the Bank (€thousands)	**(64.732)**	**1.418**	**(63.314)**	48.567	4.020	52.587
Weighted average number of issued shares during the period (thousands)	**6.036.121**	**6.036.121**	**6.036.121**	6.036.121	6.036.121	6.036.121
Basic (loss)/profit per share (€cent)	**(1,07)**	**0,02**	**(1,05)**	0,80	0,07	0,87
Adjusted weighted average number of shares (thousands)	**6.036.121**	**6.036.121**	**6.036.121**	6.036.121	6.036.121	6.036.121
Diluted (loss)/profit per share (€cent)	**(1,07)**	**0,02**	**(1,05)**	0,80	0,07	0,87

On 30 September 2017 and 30 September 2016, the diluted (loss)/profit per share is the same with the basic (loss)/profit per share because there were no issued warrants or other financial assets convertible into shares.

9. Discontinued Operations

Pursuant to the provisions of the revised Restructuring Plan, the Group has drafted sale agreements for the commercial non credit participations in New Sevegep Ltd, SOPAZ Ltd and Comarine Ltd. These agreements have been sent to the Registrar of Cooperative Enterprises for review and approval. Once the agreements are approved, the parties will proceed to implementation, which are expected to be signed within 2017. Additionally, on 26 July 2016, the disposal of PEAL Troodos Ltd has been completed and as of 1 July 2017 New Sevegep Ltd and Comarine Ltd are no longer under the control of CCB (Note 11).

As a result of the above, as at 30 September 2017 the results of these companies which are included in the consolidated results, were categorized as discontinued operations, whereas the assets and liabilities of the companies that were not disposed off by 30 September 2017 are presented separately in the Group's Statement of Financial Position as " Non-Current assets / liabilities and disposal groups held for sale " (Note 13).

9. Discontinued Operations (continued)

The results of these commercial sector participations that are included in the consolidated Statement of Profit or Loss are presented below. The comparative figures of the consolidated Statement of Profit or Loss have been adjusted to reflect last year's results of these companies as discontinued operations, as this classification was not made in the previous year.

Results of discontinued operations

	30 September 2017 €'000	30 September 2016 €'000
Interest income	**79**	128
Transactions between sectors	**(79)**	(128)
Interest expense	**(180)**	(277)
Transactions between sectors	**180**	277
Net interest income	**-**	-
Other net gains	**(104)**	(182)
Transactions between sectors	**-**	-
Other income	**9.690**	12.792
Total net income	**9.586**	12.610
Staff costs	**(2.433)**	(2.999)
Depreciation	**(507)**	(424)
Other operating expenses	**(3.522)**	(3.942)
Transactions between sectors	**507**	111
Total expenses	**(5.955)**	(7.254)
Profit from discontinued operations before tax	**3.631**	5.356
Tax	**(608)**	(573)
Profit for the period from discontinued operations	**3.023**	4.783
Loss from impairment of discontinued operations	**(1.608)**	-
Net profit for the period from discontinued operations	**1.415**	4.783

The loss from continuing operations of €64.732 thousand (2016: profit of €49.107 thousand) attributable to equity holders of the Bank amounts to €64.732 thousand (2016: profit of €48.567 thousand) and the respective profit attributable to non-controlling interests amounts to €nil thousand (2016: profit of €540 thousand). The profit from discontinued operations of €1.415 thousand (2016: €4.783 thousand) attributable to equity holders of the Bank amounts to €1.418 thousand (2016: profit of €4.020 thousand) and the respective loss attributable to non-controlling interests amounts to €3 thousand (2016: profit of €763 thousand).

Discontinued operations have no material impact on the Group's operating, investing and financing cash flows for the nine months ending 30 September 2017 and 30 September 2016. The results of discontinued operations are included in Trading Activities in note 2 of the consolidated financial information and the effect on the profit / (loss) per share is presented in note 8.

10. Loans and other advances to customers

	30 September 2017 €'000	31 December 2016 €'000
Loans and advances to customers	**11.103.952**	11.974.970
Advances for the repayment of refugee deposits	**36.758**	36.758
Long term advances for agricultural development	**19.411**	19.428
	11.160.121	12.031.156
Accrued interest	**256.668**	2.636
	11.416.789	12.033.792
Provisions for impairment	**(3.041.954)**	(3.272.236)
	8.374.835	8.761.556

Analysis of loans and other advances to customers by category:

	30 September 2017 €'000	31 December 2016 €'000
Current accounts	**708.600**	849.136
Term loans	**10.393.470**	11.123.518
Other debtors	**1.882**	2.316
	11.103.952	11.974.970

Provisions for impairment:

	Individual and collective provision for doubtful debts €'000	**IBNR €'000**	**Total €'000**
1 January 2016 (Restated)	3.340.277	108.971	3.449.248
Interest of impaired loans	423.043	-	423.043
Unwinding of discount	(210.024)	-	(210.024)
Charge for the year	99.413	13.924	113.337
Write offs and other transfers	(503.340)	(28)	(503.368)
31 December 2016/1 January 2017	3.149.369	122.867	3.272.236
Interest of impaired loans	299.648	-	299.648
Unwinding of discount	(156.329)	-	(156.329)
Charge for the period	217.382	(65.845)	151.537
Write offs and other transfers	(525.059)	(79)	(525.138)
30 September 2017	2.985.011	56.943	3.041.954

The charge for the period of €151.537 thousand includes receipts related to loans written off amounting to €7.326 thousand and direct write-offs amounting to €1.437 thousand.

10. Loans and other advances to customers (continued)

The non-performing loans as at 30 September 2017 amounted to €6.715.886 thousand (December 2016: €7.216.753 thousand) and they represented 58,8% of the total portfolio of loans and other advances to customers (December 2016: 60,0%).

According to the definition of EBA, the following advances are considered as non-performing: (i) Significant advances that present past due balances more than 90 days, or (ii) Advances for which the debtors cannot fully repay their obligations without the sale of collateral, or (iii) Customer advances for which the Bank took legal actions against them, or Advances of bankrupt customers, or Advances for which the Bank has recognized a provision for impairment or write off, or (iv) Advances that have been restructured twice in a period of two years, or (v) Advances that have been restructured and during the monitoring period (2 years) were past due for a period for more than 30 days.

The Group's exposure to credit risk, regarding loans and other advances to customers, is reported in note 16.1 of the consolidated financial information.

Advances with terms that were renegotiated and forbearance policy

The net advances with terms that were renegotiated are analyzed below by sector:

	30 September 2017 €'000	31 December 2016 €'000
Trading sector	**92.789**	88.044
Construction and real estate entities	**249.627**	256.073
Manufacturing entities	**62.808**	56.354
Tourism entities	**58.604**	53.771
Other entities	**292.843**	288.090
Individuals	**2.101.286**	2.012.734
Total	**2.857.957**	2.755.066

Analysis of loans by geographical region:

	30 September 2017 €'000	31 December 2016 €'000
Cyprus	**8.374.835**	8.761.556
	8.374.835	8.761.556

The Group proceeds to write-off of loans, and equivalent provisions for impairments, whose recovery is considered remote and for which it retains the legal right of collection. The amount of these loans at the end of the period amounts to €1.027.611 thousand (December 2016: €558.981 thousand).

11. Investments in subsidiaries

The significant financial entities and entities with exclusively trading operations whose figures were consolidated are presented below:

Name	Country of incorporation	% of ownership 30 September 2017	% of ownership 31 December 2016	Main Activities
Troodos Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Paphos Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Limassol Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Strovolos Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Famagusta-Larnaka Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Nicosia Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Telecommunications Energy and Banks Employees Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Ledra Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Allileggyis Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Lakatamia-Deftera Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Makrasyka-Larnaka-District of Famagusta Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Cyprus Educational Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Cyprus Police and Military Cooperative Savings Society Ltd	Cyprus	-	100	Financial
Kokkinochoria Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Periferiaki Limassol Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Periferiaki Nicosia Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Tamassos-Orinis and Pitsilias Cooperative Credit Society Ltd	Cyprus	-	100	Financial
Cyprus Civil Servants Cooperative Building and Savings Society Ltd	Cyprus	-	100	Financial
Pancyprian Cooperative Confederation Ltd	Cyprus	91,24	91,24	Trading
NEW SEVEGEP LTD	Cyprus	75,31	83,57	Trading
SOPAZ Ltd	Cyprus	91,50	81,35	Trading
Newfields Ltd	Cyprus	100	100	Trading
Comarine Ltd	Cyprus	55,01	59,48	Trading
Cooperative Federation of Carob Supply of Limassol Ltd	Cyprus	90,98	90,98	Trading
Cooperative Federation of Carob Supply of Larnaka Ltd	Cyprus	100	100	Trading
Cooperative Federation of Carob Supply of Paphos Ltd	Cyprus	98,78	98,78	Trading
Cooperative Federation of Carob Supply Ltd	Cyprus	66,67	66,67	Trading
CCSRE Real Estate Company Ltd	Cyprus	100	100	Real Estate Management

CCSRE Real Estate Company Ltd was established in 2016 and is a 100% subsidiary.

On 26 July 2016, the Group proceeded with the sale of its shareholding in PEAL Troodos Ltd. The sale does not have a significant impact on the Group's results. On 24 August 2016 the Group received the final approval from the supervisory authorities to proceed with the merger of the Cooperative Computer Society Ltd with CCB and on 1 July 2017, the above-mentioned CCIs were merged with CCB. In addition, as from 1 July 2017, New Sevegep Ltd and Comarine Ltd are not controlled by CCB.

12. Share capital

	30 September 2017 Number of shares	**30 September 2017 €'000**	31 December 2016 Number of shares	31 December 2016 €'000
Authorised				
6.224.904.542 shares at €0,28 each	**6.224.904.542**	**1.742.973**	6.224.904.542	1.742.973
Issued and fully paid				
On 1 January	**6.036.120.911**	**1.690.113**	1.183.682.464	1.515.113
Issue of shares	**-**	**-**	331.431.360	369.712
Decrease in nominal value of shares	**-**	**-**	-	(194.712)
	6.036.120.911	**1.690.113**	1.515.113.824	1.690.113
Denomination of nominal value			6.036.120.911	1.690.113

The total issued and fully paid share capital on 30 September 2017 was 6.036.120.911 shares of nominal value €0,28 each.

On 6 May 2016 a decree of the Minister of Finance was published in the Cyprus Government Gazette according to which the nominal value of each share was reduced from €1,28 to €1,1155, and 331.431.360 shares of nominal value €1,1155 were issued to the Recapitalisation Fund and the Cooperative Holding Companies of the CCIs, regardless of any contrary provisions of the Cooperative Companies Law, any law governing the Capital markets and the Stock Exchange Law and Regulations and Regulatory Administrative Acts issued under all the above laws, as amended or replaced from time to time. Following the above issue, the participating interest of the Republic of Cyprus in CCB's ownership structure amounts approximately to 77% and the interest of the Recapitalisation Fund approximately to 22%.

Subsequently, in accordance to the Decree, the nominal value of each share was divided to €0,28 by issuing to the existing shareholders approximately four shares of nominal value €0,28 for every one share held of nominal value €1,1155. The above referred division does not affect the total nominal value of the shares held by the shareholders prior to the division nor each shareholder's stake in the ownership structure of CCB.

13. Non-current assets and liabilities and disposal groups of assets and liabilities held for sale

Pursuant to the provisions of the revised Restructuring Plan, the Group has drafted the sale agreements for the commercial non credit participations in New Sevegep Ltd, SOPAZ Ltd and Comarine Ltd. These agreements have been sent to the Registrar of Cooperative Enterprises for review and approval. Once the agreements are approved, the parties will proceed to the implementation of the agreements, which are expected to be signed during 2017. It should be noted that as of 1 July 2017 New Sevegep Ltd and Comarine Ltd are not controlled by CCB.

As a result, the assets and liabilities of SOPAZ Ltd are presented separately in the Group's Statement of Financial Position as "Non-current assets / liabilities and disposal groups of assets / liabilities held for sale".

13.1 Impairment losses associated with discontinued operations

Impairment losses of €1.608 thousand for impairment of assets and liabilities held for sale and related to discontinued operations are measured at the lower of their carrying amount and fair value less costs to sell and are included in "Net loss for the period from discontinued operations" in the consolidated statement of profit or loss and other comprehensive income. These losses were allocated to property, plant and equipment and intangible assets.

13. Non-current assets and liabilities and disposal groups of assets and liabilities held for sale (continued)

13.2 Non-current assets and liabilities of discontinued operations

On 30 September 2017, discontinued operations were carried at fair value less costs to sell and included the following assets and liabilities:

	30 September 2017 €'000	31 December 2016 €'000
Non-current assets and disposal groups held for sale		
Cash	**27**	24
Deposits with other banking institutions	**1.281**	178
Inventories	**8.445**	14.423
Financial assets available for sale	**6.534**	5.690
Investment properties	**-**	43.527
Property, plant and equipment	**-**	1.641
Intangible assets	**12**	-
Deferred tax assets	**-**	11
Other assets	**11.610**	18.077
	27.909	83.571
Non-current liabilities and disposal groups held for sale		
Deferred tax liabilities	**110**	5.931
Other liabilities	**2.238**	5.764
	2.348	11.695

Fair value hierarchy

The calculation of the non-recurring fair value for the disposal group held for sale has been categorized at Level 3 of the fair value based on the data used in the valuation technique.

14. Reserves

The movement in reserves is disclosed in the consolidated statement of changes in equity.

The profit for distribution relates to the net profit or losses for the period which is transferred to statutory reserve.

14.1 Prepaid share reserve

The prepaid share reserve was created under the revised Restructuring Plan which requires changes in the ownership structure of the Group.

14.2 Fair value reserve

The fair value reserve for land and buildings arises from the revaluation of land and buildings. When the revalued land or buildings are disposed, the portion of the revaluation reserve that relates to that asset is transferred directly to profit for distribution.

The fair value reserve for financial assets available for sale represents accumulated gains and losses arising on the revaluation of financial assets available for sale that have been recognized in other comprehensive income, net of amounts reclassified to profit or loss, if those assets were disposed or impaired.

14. Reserves (continued)

14.3 Merger reserve

The merger reserve is substantially created from the merger of the CCIs and trading sector companies under the common control of CCB. The share capital amounts of the CCIs and trading sector companies are transferred into this reserve.

14.4 Statutory reserve

The statutory reserve required by law is created as per the article 41(1) of the Cooperative Companies Law no. 22 of 1985, as subsequently amended. The reserve is distributed as per the Recapitalization of Cooperative Central Bank / Central Body Decree of 2013, as subsequently amended.

14.5 Dilution of shares nominal value reserve

The dilution of shares nominal value reserve is created by reducing the nominal value of shares. In 2014, the nominal value of the shares was reduced from €8,54 to €1,28 and in 2016 the nominal value was reduced to €1,1155.

In accordance to the Decree, the nominal value of each share was divided to €0,28 by issuing to the existing shareholders approximately four shares of nominal value €0,28 for every one share held of nominal value €1,1155. The above division does not affect the total nominal value of the shares held by the shareholders prior to the division, nor each shareholder's percentage stake in the ownership structure of CCB.

14.6 Deemed distribution

Companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for Defense of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 17% will be payable on such deemed dividend to the extent that the owners (individuals and companies) at the end of the period of two years from the end of the year of assessment to which the profits refer are Cyprus tax residents. The amount of this deemed dividend distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. The special defense contribution is paid by the Company on behalf of the owners.

15. Contingent liabilities and commitments

In order to address the needs of its customers, the Group conducts business involving guarantees and credit limits which at the reporting date remained unutilized. Additionally, the Group has obtained commitments for capital expenditure for which contracts were signed at the reporting date but have not yet incurred. These facilities and liabilities are not included in the consolidated statement of financial position and their nominal values as at 30 September 2017 are presented below:

	30 September 2017 €'000	31 December 2016 €'000
Contingent liabilities		
Guarantees	**53.670**	56.180
Commitments		
Undrawn or partly utilized limits of advances and loans	**404.470**	409.672
Documentary credits	**424**	917
Commitments for capital expenditure	**470**	2.158
	405.364	412.747
	459.034	468.927

15. Contingent liabilities and commitments (continued)

Letters of guarantees are irrevocable commitments by which the Group is responsible to pay a specific amount to the beneficiary in the event of a customer's default on his contractual obligations.

Undrawn or partly utilized limits on advances and loans are commitments to provide credit facilities to customers. The credit facilities are provided for a fixed period of time, are reviewed at regular intervals and can be cancelled by the Group at any time.

Documentary credits are commitments by the Group to make payments to third parties provided that the terms of the documentary credit are satisfied, which include the presentation of the bill of lading and/or other documents.

The Group has recognised a decrease in provision of €2.049 thousand deriving from the above guarantees and documentary credits for the nine months ended 30 September 2017. The respective accumulated provisions as at 30 September 2017 amounted to €1.466 thousand (2016: €3.515 thousand).

Capital expenditure for which contracts were signed at the reporting date but have not yet materialized are as follows:

	30 September 2017 €'000	31 December 2016 €'000
Property, plant and equipment	**469**	2.158
	469	2.158

15.1 Contingent tax liabilities

Income tax returns which are submitted to tax authorities are subject to review by the tax authorities. Upon future review of the current and previous years' income tax returns, of the Group and its subsidiaries by the tax authorities, there is a possibility that additional taxes will be imposed in the year under examination. The Committee is unable to assess the amount of these potential tax liabilities.

15.2 Commitments from Legal Claims

On 30 September 2017, there were pending legal claims against the Bank and the CCIs in relation to their activities. The Bank and the CCIs in consultation with their legal advisors examine the cases and, based on the legal advice they receive, the necessary accounting treatment is made on the basis of the provisions of International Accounting Standard 37 "Provisions, Contingent Liabilities and Contingent Assets". According to the provisions of IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", paragraph 92, no further information is disclosed that may prejudge the Group's position in dispute with other parties.

16. Financial Risk Management

Financial Risk Factors

The Bank is developing a comprehensive risk management framework which aims to an effective monitoring and management of risks on a consolidated basis. The framework aims to:

- The measurement and monitoring of the main types of risks which the Group is exposed,
- The development of policies and procedures for undertaking and managing each risk,
- The compliance with supervisory obligations including maintaining sufficient capital.

The Committee and the Risk Management Committee are responsible for the management of risks. In accordance with the regulatory requirements, an independent Risk Management Department has been established which submits regular reports and recommendations and aims to develop appropriate methodologies for managing risks.

The most significant risks to which the Group is exposed to are credit risk, market risk, liquidity risk, capital risk management, counterparty risk and operational risk.

The Committee and the Risk Management Committee assess on a systematic basis the risk concentrations especially when it relates to advances and takes all necessary actions for managing those risks.

Mitigation methods are explained below.

16.1 Credit risk

Credit risk arises from the customers' inability to repay their loans and other advances and fulfill their contractual obligations. The quality of the loan portfolio is monitored on a systematic basis and provisions for impairment are recognized for specific or other losses that might relate to the portfolio.

The Group applies effective controls and procedures and obtains sufficient collaterals so as to minimize the possibility of loss from credit risk.

Credit risk concentration
There are restrictions regarding the concentration of credit risk from the Banking Law of Cyprus and the relevant directive issued by the Central Bank of Cyprus. According to these restrictions, banks are not allowed to lend more than 25% of their capital base to a single customer and its related parties taking into account the effect of credit risk mitigation techniques. As at 30 September 2017, the Group was in compliance with the above restrictions.

Maximum Exposure to credit risk ignoring collaterals
The table below reflects the worst case scenario of credit risk exposure of the Group without taking into account any collaterals held. In order to estimate the effect of the risk, as stated above, for the assets included in the consolidated statement of financial position the carrying amounts were used, as they are presented in the consolidated statement of financial position.

16. Financial Risk Management (continued)

16.1 Credit risk (continued)

Maximum exposure to credit risk:

	30 September 2017 €'000	31 December 2016 €'000
Deposits with central banks	**3.181.253**	3.733.233
Deposits with other banking institutions	**42.580**	43.656
Loans and other advances to customers (Note 10)	**11.416.789**	12.033.792
Other receivables	**25.117**	35.327
Total	**14.665.739**	15.846.008
Contingent liabilities (Note 15)	**53.670**	56.180
Commitments (Note 15)	**405.364**	412.747
Total not included on the consolidated statement of financial position	**459.034**	468.927
Total credit risk exposure	**15.124.773**	16.314.935

As shown above, 75,5% of the total credit risk exposures arise from loans and advances to customers and 21,0% from deposits with Central Banks.

16.1.1 Impaired advances

If the Group assesses that the total amount of the capital and interest due may not be recovered according to the contractual terms of the loan or the relevant agreement, it classifies these advances as impaired.

16.1.2 Non Impaired advances

The Group's advances which were assessed individually and no impairment was identified are classified in risk grades as follows:

Grade 1 (Low Risk):
Advances which were past due up to 90 days and are performing.

Grade 2 (Medium Risk):
Advances which were past due up to 90 days and are non-performing, and advances which were past due between 91 and 180 days.

Grade 3 (High Risk):
Advances which were past due over 180 days or are impaired.

16.1.3 Advances which are past due but not impaired

Includes loans for which, even if the repayment of the capital and interest due is past due according to the contractual obligations, the Group based on its evaluation does not assess that they should be impaired, because of the amount of collateral or/and the schedule of repayment of the amounts due.

16.1.4 Advances with conditions that were renegotiated

The Group, where it deems as beneficial, renegotiates the terms of advances for cases in which customers apply for renegotiation, as they are not in the position to repay according to the initial terms, either because of their adverse financial position or any other reason.

16. Financial Risk Management (continued)

16.1 Credit risk (continued)

16.1.4 Advances with conditions that were renegotiated (continued)

On 30 September 2017, the Group renegotiated the repayment terms on loans of €2.857.957 thousand (December 2016: €2.755.066 thousand), which related mainly to loans to individuals.

Under the new definition of EBA, restructuring of a client's facilities is considered to be any change of the terms and/or conditions of the advances in order to deal with existing or expected financial difficulties of the client to repay the advances in accordance with the existing repayment schedule, or full or partial refinancing of the problematic advance.

A restructured non-performing advance remains classified as non-performing for 12 months following the restructuring date. After the lapse of the above mentioned period for the classification of restructured advances as non-performing, the advance will be classified as non-performing only if it fulfills the criteria for the classification of non-performing facilities according to the new definition of EBA, if any delays occur or if there are concerns about the full repayment of the advance according to the revised repayment schedule.

Based on the above categories, advances to customers of the Group are presented in the tables below:

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16. Financial Risk Management (continued)

16.1 Credit risk (continued)

16.1.4 Advances with conditions that were renegotiated (continued)

30 September 2017

	Loans and advances to customers €'000	Deposits with other banking institutions €'000	Total €'000
Carrying amount	8.374.835	42.580	8.417.415
Impaired loans:			
Grade 3 (high risk)	5.785.739	-	5.785.739
Individually impaired	(2.985.011)	-	(2.985.011)
Carrying amount	2.800.728	-	2.800.728
Advances with terms that were renegotiated	1.698.526	-	1.698.526
Past due but not impaired:			
Grade 1 (low risk)	388.385	-	388.385
Grade 2 (medium risk)	152.981	-	152.981
Grade 3 (high risk)	556.476	-	556.476
Carrying amount	1.097.842	-	1.097.842
Analysis of past due:			
0-30 days	286.480	-	286.480
30-60 days	125.096	-	125.096
60-90 days	69.737	-	69.737
90 days+	616.529	-	616.529
Carrying amount	1.097.842	-	1.097.842
Advances with terms that were renegotiated	285.857	-	285.857
Neither past due nor impaired:			
Grade 1 (low risk)	4.533.208	42.580	4.575.788
Carrying amount	4.533.208	42.580	4.575.788
Advances with terms that were renegotiated	873.574	-	873.574
Balances after individual impairment	8.431.778	42.580	8.474.358
Collective impairment	(56.943)	-	(56.943)
Total carrying amount	8.374.835	42.580	8.417.415

NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION
For the nine months ended 30 September 2017

16. Financial Risk Management (continued)

16.1 Credit risk (continued)

16.1.4 Advances with conditions that were renegotiated (continued)

31 December 2016	Loans and advances to customers €'000	Deposits with other banking institutions €'000	Total €'000
Carrying amount	8.761.556	43.656	8.805.212
Impaired loans:			
Grade 3 (high risk)	6.984.276	-	6.984.276
Individually impaired	(3.149.369)	-	(3.149.369)
Carrying amount	3.834.907	-	3.834.907
Advances with terms that were renegotiated	2.047.576	-	2.047.576
Past due but not impaired:			
Grade 1 (low risk)	489.622	-	489.622
Grade 2 (medium risk)	19.639	-	19.639
Grade 3 (high risk)	143.253	-	143.253
Carrying amount	652.514	-	652.514
Analysis of past due:			
0-30 days	379.873	-	379.873
30-60 days	79.547	-	79.547
60-90 days	43.606	-	43.606
90 days+	149.488	-	149.488
Carrying amount	652.514	-	652.514
Advances with terms that were renegotiated	95.396	-	95.396
Neither past due nor impaired:			
Grade 1 (low risk)	4.397.002	43.656	4.440.658
Carrying value	4.397.002	43.656	4.440.658
Advances with terms that were renegotiated	612.094	-	612.094
Balances after individual impairment	8.884.423	43.656	8.928.079
Collective impairment	(122.867)	-	(122.867)
Total carrying amount	8.761.556	43.656	8.805.212

16. Financial Risk Management (continued)

16.1 Credit risk (continued)

16.1.5 Collateral

Based on Group's policy, the amount of credit facilities granted should be based on the repayment capabilities of the relevant counterparties. Furthermore, for the hedging and mitigation of credit risk the Group obtains collaterals, the nature of which is set by the Group's policies.

The main collaterals held by the Group include mortgages over properties, pledging of cash, government and bank guarantees, charges over assets of businesses as well as corporate and personal guarantees.

16.2 Market risk

Market risk is the risk of financial loss arising from sudden changes in foreign currency rates, interest rates and prices of financial instruments. The risk is managed by the Assets and Liabilities Committee (ALCO) so as to be maintained within acceptable limits.

For the efficient management of risks arising from interest rate and exchange rate fluctuations, the Assets and Liabilities Committee (ALCO) of the Group has defined specific strategies and has set limits on open positions for every risk.

16.3 Currency risk

Currency risk is the risk of financial loss arising from adverse changes in foreign currency rates when there is a net position (asset or liability) in one or more foreign currencies. The Bank's Management sets open foreign currency position limits, on a total basis for all currencies and for each currency separately, which are monitored on a continuous basis.

16.4 Interest rate risk

Interest rate risk is the risk of decrease in the value of financial instruments or in net interest income as a result of adverse movements in the market interest rates. Interest rate risk arises due to timing differences on the reprising of interest rates on assets and liabilities. The Group monitors on a continuous basis interest rates fluctuations and the exposure of its assets and liabilities which are subject to interest rate fluctuations and take all necessary measures for managing this risk.

16.5 Investment price risk

Price risk arises from adverse changes in the prices of the investments held by the Group. The Group's investments are classified as available for sale and therefore changes in the investment prices affect the Group's capital.

The Group monitors on a daily basis a complete set of early warning indicators aiming at the early recognition of adverse fluctuations in the value of investments and takes all necessary actions to limit the impact on equity.

16.6 Liquidity risk

Liquidity risk is the risk of financial loss arising from a potential inability of CCB to meet its current payment obligations without suffering additional costs. The monitoring of liquidity risk concentrates on balancing cash inflows and outflows in various time periods, ensuring that under normal circumstances CCB would be in a position to meet its cash obligations, and to maintain "high liquid" assets, where these assets are available for immediate liquidation, in case of emergency.

CCB monitors and assesses the liquidity risk associated with its daily activities, through daily monitoring of various liquidity ratios, as required by the relevant directives/circulars of the Central Bank of Cyprus and the European Central Bank. In addition, it applies on a quarterly basis methodologies for assessing liquidity needs, which are expected to occur in the following year under hypothetical liquidity crisis scenarios as part of its internal liquidity adequacy assessment process.

16. Financial Risk Management (continued)

16.6 Liquidity risk (continued)

The following table shows the index for liquid assets denominated in euro, as required by the relevant Directive of the Central Bank of Cyprus for the Prudential Liquidity held in euro:

	30 September 2017 %	31 December 2016 %
On 30 September /31 December	**33,5**	34,2
Average for the period/year	**33,7**	31,9
Maximum quarterly index	**33,9**	34,2
Minimum quarterly index	**33,5**	29,4
Minimum supervisory Index	**20,0**	20,0

The Group meets the supervisory liquidity requirements for the euro.

The following table shows the index for liquid assets denominated in foreign currency, as required by the relevant Directive of the Central Bank of Cyprus for the Prudential Liquidity held in foreign currency:

	30 September 2017 %	31 December 2016 %
On 30 September /31 December	**113,4**	117,6
Average for the period/year	**116,0**	115,3
Maximum quarterly index	**119,2**	117,6
Minimum quarterly index	**113,4**	113,0
Minimum supervisory Index	**70,0**	70,0

The Group meets the supervisory liquidity requirements for foreign currencies.

16. Financial Risk Management (continued)

16.7 Other risks

16.7.1 Capital risk management

The primary regulatory authority, which determines and monitors the Group's capital requirements is the SSM.

On 26 June 2013, the European Parliament and the Council approved the Regulation (EU) no.575/2013 (Capital Requirements Regulation- CRR), which relates to the prudential supervision requirements for credit institutions, as well as the Directive 2013/36/EU (Capital Requirements Directive IV- CRD IV), which relates to the access to the activities of credit institutions and the prudential supervision of credit institutions (Basel III).

In August 2014, CBC has issued a Directive for the purposes of determining the Distinctive Discretions and the Transitional Provisions provided by Regulation (EU) no. 575/2013, by exercising its power pursuant to the article 41 of the Business of Credit Institutions Law of 1997 to (no. 4) of 2013 and under Regulation (EU) no. 575/2013.

The Basel III directive consists of the following pillars:

Pillar I – Minimum capital requirements:
Pillar I refers to the minimum capital requirements of the credit institution, so as the exposure of the Group to credit risk, market risk and operational risk is adequately covered.

Pillar II – The supervisory review process:
Pillar II links the regulatory capital requirements to the banking institutions' internal capital adequacy assessment procedures (ICAAP) and to the reliability of its internal control structures. The purpose of Pillar II is to promote the communication between supervising authorities and banking institutions on a continuous basis and the reliability of the banks' capital needs in relation to their risks.

Pillar III – Disclosure of information:
Pillar III requires, amongst others, the disclosure of information regarding the risk management policies and procedures of the banking institution, the results of the calculations of minimum capital requirements, as well as information regarding the composition of the institution's capital. The relevant disclosures are published on the website of the Cyprus Cooperative Bank Ltd.

In the context of legislative and regulatory demands for the consolidation of the CCIs into a central organization as per the instructions of the European Union, the Cyprus Cooperative Bank Ltd assumed the role of central organization, defined as 'Central Body'. The Central Body started to operate on 1 January 2008. Cyprus Cooperative Bank Limited, by assuming its new role of the Central Body in compliance with the European Directive 2000/12/EC, as recast with the Directive 2006/48/EC, relating to the taking up and pursuit of business of credit institutions and the Cooperative Societies Rules of 2004, guaranteed the commitments of affiliated CCIs so that the latter be exempted from the regulatory provisions of the Directive on an individual basis. The above Directive and the Rules provide that, the exempted provisions must be satisfied by the Central Body and the affiliated CCIs on a consolidated basis.

The Group's equity entirely comprises of Common Equity Tier 1 Capital which includes issued share capital and reserves (including revaluation reserve). Common Equity Tier 1 Capital is reduced by the participation of the affiliated CCIs, the intangible assets and the amount of deferred tax assets which depends on the future profitability and does not arise from temporary differences, subject to the provisions of the CRR and the transitional provisions of CBC.

The capital adequacy of the Group is monitored by Management every quarter. The required information is submitted every quarter to CBC, for calculating the capital requirements and large exposures on a collective basis.

It is noted that the minimum capital adequacy to be met by each credit institution is determined on an annual basis by the SSM under Pillar II, and in particular under the Supervisory Review and Examination Procedure (SREP). In the context of the SREP for 2016, the minimum Tier 1 capital ratio for 2017 is set at 11,50% and the Bank is subject to a distribution dividend limitation to shareholders. The Group exceeds the minimum indicator that was in force at 30 September 2017.

16. Financial Risk Management (continued)

16.7 Other risks (continued)

16.7.1 Capital risk management (continued)

According to a decision sent by the ECB to CCB in December 2016 in line with the supervisory framework, the minimum capital adequacy ratio applicable from 1 January 2017 is 11,75% (Total SREP Capital Requirement 'TSCR'), consisting of minimum regulatory capital 8% (CET1 of 4,5%, Additional Tier 1 and Tier 2, 1,5% and 2% respectively) and additional capital Pillar II 3,75%. In addition, under Pillar II ECB has notified CCB of a non-public call to maintain an additional Class 1 Common Equity Fund. The Bank should maintain capital reserves provided by the regulatory framework that currently include the Capital Conservation Buffer, which the CBC had set at 1,25%, resulting in a total liability of 13%.

In addition, the combined capital buffer requirement for the CCB includes:

- the security buffer O-SII (Other Systemically Important Institutions) which has been set at 1% and will be implemented progressively over a period of four years starting from 1 January 2019,
- the Countercyclical Capital Buffer, which CBC has set at 0% for exposures in Cyprus until 31/12/2017 (CBC revises this buffer on a quarterly basis and informs the bank with a relevant letter); and
- the Systemic Risk buffer which has not yet been determined until today.

During December 2015, the Group increased its equity by €175 million. The capital increase was achieved following the submission of a capital plan which was prepared based on the relevant circular (the Decision) issued by the ECB on 27 November 2015.

For the nine months ended 30 September 2017 and for the year ended 31 December 2016, the Group complied with all capital requirements, as presented below:

	30 September 2017 €'000	31 December 2016 €'000
Equity		
Common Equity Tier 1 capital	**1.131.348**	1.166.564
Total risk weighted assets	**7.428.013**	7.567.224
	%	%
Common Equity Tier 1 Capital ratio	**15,23**	15,42

Leverage Ratio

The leverage ratio is a useful tool which helps a credit institution to specify its capital adequacy and restrict the extent to which it can utilize its capital base.

According to the provisions of Regulation (EE) no. 575/2013 of the European Parliament and the Council as well as the suggestions of the Basel Committee for the banking supervision, a bank shall maintain a leverage ratio of at least 3%, which means that its total assets cannot be more than 33 times of its eligible Tier 1 capital.

At 30 September 2017, the Group's Leverage Ratio was estimated at 8,4% (compared to 8,3% on 31 December 2016), meaning that total assets are 11,9 times more than available eligible Tier 1 capital.

16. Financial Risk Management (continued)

16.7 Other Risks (continued)

16.7.2 Counterparty risk

Counterparty risk arises from the risk of loss due to the probability that a counterparty, with which the Group enters into a specific transaction, defaults before the final settlement of the transaction.

The Bank's Assets and Liabilities Committee (ALCO) approved a specific model for the determination of limits regarding the exposures in other countries and banking institutions of Cyprus and abroad. The limits are mainly determined based on the credit rating of the counterparty, as it is set by recognized international credit-rating agencies, and the maturity period of the placement/investment. The model is revised at least annually or whenever the economic conditions require it.

The Market and Liquidity Risk Management Department, monitors on a regular basis, any changes of the counterparties' credit ratings and of the countries for which the Group has set limits and distributes timely the relevant information to the responsible functions for taking the necessary measures and corrective actions. At the same time, a daily limit monitoring procedure has been set, so as to identify deviations and avoid breaches of the set limits.

16.7.3 Operational risk

Operational risk refers to the financial loss due to inadequate or failed internal processes, human resources and systems or from external events.

Operational risk includes legal risk and compliance risk but excludes the strategic and reputational risk.

The Bank's Risk Management Unit ("RMU") is responsible for setting the overall Operational Risk Management Framework and Governance, also supporting and monitoring its correct and effective application. In this context the Operational Risk Management Framework has been established in order to define, inter alia, the roles and responsibilities of all business, supporting and control units of the Bank. It also determines the specific policies and procedures related to the Collection of Operational Risk Events, the Risk & Control Self-Assessment (RCSA) as well as the setting of Key Risk Indicators (KRIs) for the monitoring of high risk areas. The management of operational risk is directly related with the preparation of action plans/implementation of corrective measures when deemed necessary, aiming to increase the operational efficiency of the procedures and human resources respectively and as a result the improvement of the quality of services to the clients.

The collection of operational risk events is carried out through a specialized IT system operated by the Operational Risk Liaisons/Ambassadors established in every business unit of the Bank.

Moreover, the RMU, through special educational programs, aims to the continuous training of personnel in operational risk management issues in order to create the appropriate culture.

17. Fair value of financial instruments

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

Fair value of loans and other advances is approximately equal to their book value in the consolidated statement of financial position, net of the provisions for impairment.

17. Fair value of financial instruments (continued)

17.1 Measurements of fair value recognized in the consolidated statement of financial position

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

- Level 1: fair value measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: fair value measurements based on information 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 based on valuation techniques that include information for the asset or liability that are not based on observable market data (unobservable inputs).

For assets and liabilities recognized in the consolidated financial information at fair value, the Group determines whether transfers have been made between the levels in the hierarchy by re-evaluating the classification at the end of each period.

The table below presents an analysis of the Group's assets at fair value, or assets for which the fair value is disclosed, based on the hierarchy level:

30 September 2017	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets available for sale :				
Investments in debt securities	171.003	778.485	-	949.488
Investments in shares	17.936	38.384	-	56.320
	188.939	816.869	-	1.005.808
Properties held for sale	-	-	161.058	161.058
Investment properties	-	-	230.824	230.824
Properties held for own use	-	-	221.443	221.443
Total	**188.939**	**816.869**	**613.325**	**1.619.133**

31 December 2016	Level 1	Level 2	Level 3	Total
	€'000	€'000	€'000	€'000
Financial assets available for sale :				
Investments in debt securities	208.046	443.066	-	651.112
Investments in shares	16.680	14.734	-	31.414
	224.726	457.800	-	682.526
Properties held for sale	-	-	121.825	121.825
Investment properties	-	-	238.650	238.650
Properties held for own use	-	-	225.515	225.515
Total	**224.726**	**457.800**	**585.990**	**1.268.516**

There were not any transfers between the different levels during the period/year.

17. Fair value of financial instruments (continued)

17.1 Measurements of fair value recognized in the consolidated statement of financial position (continued)

The table below shows the reconciliation between the initial and the final balance for assets whose fair value measurement is classified in Level 3 of the hierarchy:

30 September 2017	Level 3			
	Properties held for sale €'000	Investment properties €'000	Properties held for own use €'000	Total €'000
Opening balance	121.825	238.650	225.515	585.990
Total gains or losses:				
- in the statement of profit or loss	-	-	(2.922)	(2.922)
Additions for the period	46.643	84	2.161	48.888
Disposals for the period	(7.410)	(7.910)	(3.305)	(18.625)
Transfers from / (to) other property categories	-	-	(6)	(6)
Closing balance	**161.058**	**230.824**	**221.443**	**613.325**

31 December 2016	Level 3			
	Properties held for sale €'000	Investment properties €'000	Properties held for own use €'000	Total €'000
Opening balance	100.338	282.560	246.632	629.530
Total gains or losses:				
- in the statement of profit or loss	(8.207)	(3.890)	(7.239)	(19.336)
- in the statement of total other comprehensive income	-	-	44	44
Additions for the year	32.743	831	5.059	38.633
Disposals for the year	(3.864)	(5.230)	(953)	(10.047)
Transfers from / (to) other property categories	815	(35.621)	(18.028)	(52.834)
Closing balance	**121.825**	**238.650**	**225.515**	**585.990**

18. Disclosures for Correction of error

As per the provisions of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" on the consolidated financial statements for the year ended 31 December 2016 the Group has identified an error in the recognition of interest income and the valuation of loans which has an impact on the presentation of prior years' financial statements.

The error was mainly due to misinterpretation and inadequate implementation of the applicable laws, which provide for the responsibilities of the lender in relation to the contractual obligations arising from loan contracts, where the base interest rate is linked to the base rate of the European Central Bank or the Euribor ("reference interest rates"). The loan contracts were substantially issued in the period from 2007 to 2011, i.e. before and after the accession of Cyprus to the Eurozone and the adoption of the Euro on the 1/1/2008. Due to the significant deviation of the cost of deposits in Cyprus from the aforementioned reference interest rates, a number of Cooperative Credit Institutions either unilaterally changed the reference interest rate stated in the loan contracts due to misinterpretation of the contractual clauses, or did not follow as they ought to have done the reduction in the reference interest rates of the loan contracts, or they increased the interest rate margin without previously satisfying the requirements set out in the applicable laws. It should be noted that in a number of cases, the borrowers were notified of the change either through an announcement in the daily newspapers or by personal notification letters or other forms of communication. The Board of CCB, on the basis of recent legal opinions that were received in 2017, following a relevant decision of the Financial Ombudsman, has adopted the view that the abovementioned practices are not compatible with a reasonable legal interpretation of the relevant terms of the loan contracts and applicable legislation and it has decided that, based on an assessment of the circumstances and legal merits of each case, to reimburse interest overcharges to those customers that were affected from the error. The decision affects non-settled loans and loans that have been settled after 2011. The decision does not affect cases that have been decided in Court or by an Arbitrator and which will continue to be handled in the course of handling non-performing loans and advances.

The error identified has been corrected by restating the comparative amounts affected in the prior periods of the consolidated financial statements for the year ended 31 December 2016.