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Annual Financial Report
HELLENIC BANK PUBLIC COMPANY LTD
HB

Annual Report of Hellenic Bank Public Company Ltd for the year 2018

Announcement dated 13th June 2019 is attached.

Attachments:

1. **Annual Report of Hellenic Bank Public Company Ltd for the year 2018**
2. **Annual Report for the year 2018**

Regulated

Publication Date: 13/06/2019

13th June 2019

ANNOUNCEMENT

Subject: Annual Report of Hellenic Bank Public Company Ltd for the year 2018

Please find attached the Annual Report of Hellenic Bank Public Company Ltd for the year 2018, which is uploaded on the Bank's website www.hellenicbank.com (Investor Relations / Corporate Governance (scroll down) / Annual Reports and Investor Relations / Financial Results 2018).

HELLENIC BANK PUBLIC COMPANY LTD

annualreport

HELLENIC BANK

CONTENTS

3 BASIC FINANCIAL HIGHLIGHTS

4 BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE

6 CHAIRMAN'S MESSAGE

8 CHIEF EXECUTIVE OFFICER'S MESSAGE

11 GROUP OPERATIONS REVIEW

31 MANAGEMENT REPORT

43 REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE FOR THE YEAR 2018

64 REMUNERATION POLICY REPORT FOR THE YEAR 2018

73 INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

82 CONSOLIDATED INCOME STATEMENT

83 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

84 CONSOLIDATED STATEMENT OF FINANCIAL POSITION

85 CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

87 CONSOLIDATED STATEMENT OF CASH FLOWS

88 INCOME STATEMENT

89 STATEMENT OF COMPREHENSIVE INCOME

90 STATEMENT OF FINANCIAL POSITION

91 STATEMENT OF CHANGES IN EQUITY

93 STATEMENT OF CASH FLOWS

94 NOTES TO THE FINANCIAL STATEMENTS

225 DECLARATION BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BANK OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE FINANCIAL STATEMENTS

228 BOARD OF DIRECTORS OF THE GROUP'S MAIN SUBSIDIARY COMPANIES

229 GROUP OFFICES AND BRANCH NETWORK

231 SHAREHOLDER INFORMATION AND INVESTOR RELATIONS

232 ABBREVIATIONS

BASIC FINANCIAL HIGHLIGHTS

	2018	2017	2016	2015	2014
customer deposits and other customer accounts € MILLION	14.709,2	5.808,1	6.111,1	6.138,7	6.345,9
loans and advances to customers € MILLION	7.635,5	4.054,9	4.300,1	4.395,9	4.405,1
total assets € MILLION	16.126,2	6.846,6	7.037,6	7.397,4	7.551,6
equity attributable to shareholders of the parent company € MILLION	820,3	558,9	563,5	639,6	590,0
group profit from ordinary operations before impairment losses and provisions to cover crecit risk € MILLION	86,7	33,6	103,2	104,3	157,9

Note: On 3 September 2018 the Bank announced the completion of the acquisition (“Acquisition”) of certain assets and liabilities of the Cyprus Cooperative Bank Ltd (“CCB”), referred to as Cooperative Asset Management Company Ltd (the “ex-CCB”), with effect from 1 September 2018. Hence the financial results of the CCB business acquired are fully consolidated as from that date. The impact of the results of the CCB business acquired for the four-month period along with the negative goodwill arising from the Acquisition are included in the financial results of the Group for the FY2018. Due to the above, the financial results of the Group for the FY2018 are not comparable with previous financial results.

BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE AS AT 24 APRIL 2019

BOARD OF DIRECTORS OF HELLENIC BANK PUBLIC COMPANY LTD

Youssef A. Nasr,
CHAIRMAN
(elected on 11.07.2018)

Evripides A. Polykarpou
Senior Independent Director
(fulfilling the duties of the Chairperson from 24.05.2017 until 11.07.2018)

Marinos S. Yannopoulos,
VICE – CHAIRMAN

Irena A. Georgiadou
Marianna Pantelidou Neophytou
Ioannis A. Matsis
David Whalen Bonanno
Christodoulos A. Hadjistavris
Andreas Christofides
Lambros Papadopoulos
(until 11.07.2018)
Andrew Charles Wynn
Stephen John Albutt
Demetrios Efstathiou
Lars Kramer

CHIEF EXECUTIVE OFFICER

Ioannis A. Matsis

EXECUTIVE COMMITTEE OF THE HELLENIC BANK GROUP

Lars Kramer
Chief Financial Officer

Georgios Fereos
General Manager
Corporate Development & Products

Phivos Stasopoulos
General Manager
Business

George Karageorgis
General Manager
Retail & International Banking

Phivos Leontiou
Chief Operating Officer / Chief Integration Officer
(subject to approval from the regulatory authorities)

Vladislav Botic
Chief Operating Officer
(until 03.04.2018)

Demetrios Anagnostopoulos
Chief Risk Officer
(subject to approval from the regulatory authorities)

Yiannis Ioannou
Interim Chief Risk Officer
(from 09.03.2018)

Stefano Capodagli
Chief Risk Officer
(until 08.03.2018)

Marina Kolokotroni
Chief Compliance Officer
(until 28.02.2018)

Matheos Charalambides
Chief Compliance Officer

Georgios Christodoulides
General Manager
Human Resources

Charalambos Frantzeskos
Chief Technology Officer
(from 27.09.2018)

Marios Kalotychos
General Manager
NPA Delevaraging & Transaction Advisory
(subject to approval from the regulatory authorities)

CHIEF INTERNAL AUDITOR

Niki Nicolaidou - Hadjixenophontos

CHIEF FINANCIAL OFFICER

Lars Kramer

CHIEF LEGAL OFFICER

Calliopi Nicolaidou

COMPANY SECRETARY

Petros Arsalides

AUDITORS

KPMG Limited

LEGAL ADVISERS

Georgiades & Pelides LLC

REGISTERED OFFICE

Corner Limassol Avenue & 200 Athalassa Avenue, Strovolos,
2025 Nicosia, Cyprus
P.O. Box 24747, 1394 Nicosia, Cyprus

Dear shareholders,

In July 2018, I was honoured to be appointed as Chairman of Hellenic Bank's Board of Directors, which turned out to be a landmark year for our Bank. I would like to thank the shareholders and fellow Board Members for entrusting me with this challenging position and assure them that I am fully dedicated to guiding our Bank forward at this very critical time.

In 2018 the macroeconomic environment remained favourable, as Cyprus's economy continued to strengthen, and it is expected to continue growing at robust rates. At the same time, despite the strong economic recovery, some slack in the economy is still present mainly reflected through the relatively high unemployment rate -although at a declining trend- and the subdued level of inflation. As a result, the risk for higher interest rates looks to be some time away.

The majority of the economy's key sectors, including tourism, shipping, real estate and business services are performing well. It is also very encouraging that the productive base of the economy is gradually expanding into new sectors including higher education, innovation, offshore natural gas and renewable energy. The better than expected economic recovery, along with the improved domestic financial conditions, have created an environment of improved confidence, expressed most indicatively through the credit rating agencies' upgrade of Cyprus to investment grade.

Furthermore, developments in the Cypriot energy sector including recent drillings and potential major natural gas discoveries,the creation of pipelines that connect countries around the Mediterranean with each other and with Europe, and the rising level of investment in renewable energies- are expected to be beneficial to Cyprus's domestic economy. Political differences will be hopefully set aside from this sector, for the best interest of all Cypriots and consequently the Eastern Mediterranean region.

The positive macroeconomic performance does not justify complacency and should not signal a relaxation of efforts in further economic reform, as the global geopolitical environment remains uncertain and volatile. The economic outlook may be negatively affected, amongst other factors, due to the a slower than expected growth in the EU, the unpredictable outcome of the US-China trade war and the relationships of the EU with Russia. Heightened Brexit uncertainty is another critical factor. Cyprus is long-standing UK partner and any form of turbulence related to the British economy may subsequently have adverse effects on Cyprus.

As far as the banking sector is concerned, it is gaining ground compared to a few years back. It is now recapitalized, restructured and under much more sophisticated supervision both locally and at EU level. In 2018 banks made bold moves to clean up their balance sheets and move towards the much-needed consolidation of the sector. The most notable one was the agreement of Hellenic Bank to acquire certain assets and liabilities of the former Cyprus Cooperative Bank (CCB).

The acquisition was pivotal for the Bank not only because it strengthened our business model and propelled us into consistent, healthy profitability; but also, because it reduced the Non Performing Exposures (NPEs) ratio in half, giving the Bank room to manoeuvre and explore available tools on how to permanently reduce NPEs to single digit levels.

Given this opportunity, I would like to welcome all our new clients and I want to assure them that we are working hard to ensure that the transition into the new era is as smooth and seamless as possible. At the same time, I would like to express my appreciation and gratitude to the existing customers of Hellenic Bank for their loyalty and support. The task is challenging, but our new and existing customers will be able to enjoy upgraded, quality banking services and competitive products.

The successful integration of the acquired business is a strategic priority for us. Therefore, a full scale 15-month plan has been launched with the assistance of international advisors. Fully Operational Integration Governance has been set up involving specialised work streams, Integration Management Office and Executive Integration Steering Committee. Also, a Board of Directors Integration Committee has been set up in order to have direct and streamlined integration monitoring.

Our people have played an instrumental role in navigating through this deal and I am greatly appreciative of the hard work and commitment. I am confident that our staff will remain our driving force throughout the integration period and continue to offer our clients excellent and state of the art professional services.

There are huge opportunities for Hellenic Bank to become a sustainable and profitable Bank, able to finance the growth of the Cypriot economy, the primary Bank for all our customers and the best employer in the country.

I want to express my sincere thanks the Board of Directors for their dedication and professionalism and especially to the previous Chairman Dr. Evripides Polycarpou who successfully led the Bank through an extremely tumultuous period. Fortunately, he still serves the Bank as a Senior Independent Director. Furthermore, I would like to thank Mr. Lambros Papadopoulos, an exceptional member of the Board who retired from his position and who served the Bank for three years. I wish him every success in his future endeavours.

As Chairman of the Board of Directors I do not underestimate the challenges that lie ahead. At the same time, there are huge opportunities for Hellenic Bank to become a sustainable and profitable Bank, able to finance the growth of the Cypriot economy, the primary Bank for all our customers and the best employer in the country. I want to underline my strong commitment to remain focused and honour the confidence you have demonstrated to the Board of Directors and to myself.

YOUSSEF A. NASR
CHAIRMAN
NICOSIA, 01 JUNE 2019

CHIEF EXECUTIVE OFFICER'S MESSAGE

Dear shareholders,

In 2018, our intentions were clear. Our vision was to create a leading and profitable Organisation. We knew that this would be a difficult project, requiring hard work and dedication by everyone. However, our aim was to establish an Organisation that safeguards its depositors and creates shareholder value. An Organisation with proud staff and above all, satisfied customers. This is what we aimed for through our strategic goals. We wanted to become people's main Bank, which they could trust for all their needs.

In 2017, we laid the foundations, it was the year that marked the beginning of our transformation journey. We set a strategic plan, which we followed and to date we have implemented all the things we promised.

In 2018, the acquisition of certain assets and liabilities of the former Cooperative Central Bank (CCB), brought both Hellenic Bank and the entire Cypriot banking system into a new era.

The acquisition is a strategic transaction and a catalyst in creating sustainable profitability for the Bank, by strengthening our position in the local market and by bringing greater stability to the country's financial system. Through this agreement, Hellenic Bank became the leading retail bank in Cyprus, acquiring the largest branch network and market shares in household deposits and in household loans of 39% and 30% respectively. The acquisition perimeter is complementary to the Bank's existing business model, creating economies of scale and important synergies. At the same time, our operations were enhanced with a wider and diversified client base and a much larger balance sheet, significantly de-risked. The Acquisition made Hellenic Bank almost 2.5 times bigger, with its total balance sheet increasing from €6.7 billion to €16 billion.

Following the Bank's €150 million share capital raise, that was completed in March, the Group's capital position was further enhanced, with Pro forma Tier 1 (CET1) and Capital Adequacy ratios (with transitional basis) at 18.95% and 21.65% respectively, well above minimum regulatory requirements and EU average. The successful Share Capital Increase reflects the confidence and support of existing and new shareholders, towards the Bank's Management.

In 2018, the Group showed Profit after tax of €320 million, mainly due to the negative goodwill of €297.9 million.
In addition, the agreement drastically changed our NPEs ratio which dropped impressively to 26.5% from 52% (excluding NPEs covered by the Asset Protection Programme), while net NPEs to Assets ratio fell to 4% from 12%.

Inevitably, our decision minimised the underlying uncertainty, boosted depositors' confidence, and acted as a lever for Cyprus' sovereign rating return to investment grade. It was also an important step towards the consolidation of the banking sector.

We are turning a page and focusing on the future. Our next challenge and primary strategic priority for 2019 is the speedy and seamless transition to the new era, along with a smooth integration of our systems and staff.

Dear shareholders,

All these allow us to be optimistic. We are turning a page and focusing on the future. Our next challenge and primary strategic priority for 2019 is the speedy and seamless transition to the new era, along with a smooth integration of our systems and staff.

We aim at a steady and sustainable profitability, a faster deleveraging of NPEs, sound use of the available balances, and a stronger balance sheet through productive investments and dynamic financing of the Cyprus economy. We proceed with the smooth transition of our Bank to the digital age and invest in changing the culture in our working environment.

We are well aware that our staff is the driving force behind this enormous effort. A satisfied staff delivers better customer service and, therefore a successful course for our Bank.
We recognise the challenges as well as the prospects laying ahead of us. They fill us with a keen desire to work even harder, in order to take our Bank where it deserves to be, for you the shareholders, its customers, its staff and the society in general.

J. Matsis

YIANNIS MATSIS
CHIEF EXECUTIVE OFFICER
NICOSIA, 01 JUNE 2019

group operations review

GROUP OPERATIONS REVIEW

FINANCIAL RESULTS 2018

The Group's profit before taxation for the year ended 31 December 2018 amounted to €319,5 million (Bank: profit €316,6 million) and included the impact of the results of the Business for the four-month period along with a negative goodwill of €297,9 million as a result of the Acquisition. The negative goodwill represented the difference between the consideration paid of €74,2 million cash and the net fair value of the identifiable assets acquired and the liabilities assumed. For year ended 31 December 2017 the Group reported a loss of €48,5 million (Bank: loss €50,7 million).

Profit attributable to the Bank's shareholders for the year ended 31 December 2018 amounted to €319,3 million compared to a loss of €45,7 million for the year ended 31 December 2017.

INCOME STATEMENT ANALYSIS

Net interest income

The Group's net interest income for the year ended 31 December 2018 was €184,2 million (Bank: €184,1 million), up by 40% (Bank: increase of 41%) compared to €131,2 million (Bank: €131,0 million) for the year ended 31 December 2017. The main factor that contributed to the increase of net interest income was the impact of the Acquisition on interest income from loans and advances to customers and on interest income from debt securities.
The Group's net interest margin for the year ended 31 December 2018 amounted to 1,96% (31 December 2017: 2,03%).

Non-interest income

The Group's total non-interest income for the year ended 31 December 2018 amounted to €105,0 million (Bank: €95,7 million), recording an increase of 2% (Bank: increase 6%) compared to €103,3 million for the year ended 31 December 2017 (Bank: €90,5 million) mainly due to higher net gains on disposal and revaluation of foreign currencies and financial instruments partly offset by the lower other income.

The Group's net gains on disposal and revaluation of foreign currencies and financial instruments for the year ended 31 December 2018 amounted to €27,1 million (Bank: €27,3 million) and recorded an increase of 118% compared to €12,4 million (Bank: €12,5 million) for the year ended 31 December 2017, with the increase being mainly due to the gain of €18,3 million from the disposal of Cyprus Government Bonds (CGBs) during the first quarter of 2018.

Other income for the year ended 31 December 2018 amounted to €29,1 million (Bank: €16,4 million) and was down by 36% (Bank: 45%) compared to €45,6 million in 2017 (Bank: €30 million) mainly due to the net gain of €19 million from the disposal of the operations of the Arrears Management Division (AMD) of the Bank in June 2017 to APS Cyprus.

Net fee and commission income for the year ended 31 December 2018 was €48,8 million (Bank: €52,0 million) recording an increase of 8% (Bank: increase by 8%), compared to the year ended 31 December 2017 with the increase mainly due to the impact of the Acquisition.

Expenses

Group's total expenses for the year ended 31 December 2018 amounted to €202,5 million (Bank: €193,6 million), increased by 1% compared to €200,9 million (Bank: €189,3 million, increased by 2%), for the year ended 31 December 2017.

Staff costs

Group's staff costs for the year ended 31 December 2018 amounted to €87,6 million compared to €86,9 million the year ended 31 December 2017, recording an increase of 1% and accounted for 43% (2017: 43%) of the Group's total expenses. The Bank's staff costs for the year ended 31 December 2018 amounted to €82,5 million compared to €81,6 million the year ended 31 December 2017, recording an increase of 1% and accounting for 43% (2017: 43%) of the Bank's total expenses. The main drivers of the increase were the decrease in the number of staff during the first quarter of 2018, as a result of the Voluntary Early Exit Scheme (VEES) which was offset by the staff onboarded as part of the Acquisition from 1 September 2018.

Administrative and other expenses

The Group's total administrative and other expenses for the year ended 31 December 2018 amounted to €103,7 million compared to €105,8 million for the year ended 31 December 2017 (down by 2%). The Bank's total administrative and other expenses for the year ended 31 December 2018 amounted to €100,1 million compared to €99,8 million for the year ended 31 December 2017. Administrative and other expenses included an amount of €10,2 million which relates to cost of advisory services in relation to the Acquisition. The integration cost incurred up to 31 December 2018 was approximately €13 million and the total integration cost is estimated to reach approximately €71 million by the end of the integration period. It should be noted that the integration cost is expensed or capitalised as it is incurred.

The Group's cost to income ratio for the year ended 31 December 2018 was 70,0% compared to 85,7% for the year ended 31 December 2017. The Bank's cost to income ratio for the year ended 31 December 2018 was 69,2% in comparison to 85,5% for 31 December 2017. For the year ended 31 December 2018 the ratio incorporates the high cost of advisory services as a result of the Acquisition and the integration as well as the results of the Business for 4 months. Whereas for the year ended 31 December 2017 the ratio incorporates the cost of the VEES.

Impairment losses and provisions to cover credit risk
The Group's total impairment losses and provisions to cover credit risk for the year ended 31 December 2018 amounted to €67,2 million (Bank: €67,4 million) compared to €82,9 million (Bank: €82,9 million) for the year ended 31 December 2017, recording a decrease of 19%.

Despite the improvement of the loan portfolio quality that led to a reversal of impairment losses in the first half of 2018, the Acquisition triggered an additional impairment charge in the third quarter of 2018 which related to the acquired portfolio.

As from 1 January 2018, the Bank has introduced a new impairment model which is based on expected credit losses (ECL) as per the requirements of IFRS 9. Under IFRS9 an asset acquired in a business combination would attract loss allowance at the first reporting date after it is recognised, even if that date is the date on which the business combination has taken place. This means that even though the fair value of the acquired portfolio had already incorporated expected credit losses at initial recognition, ECL still needed to be calculated on the book value resulting in an impairment charge in the third quarter of 2018 of approximately €54 million.

Furthermore, during the fourth quarter of 2018, the Bank proceeded with certain amendments to the parameters used in the provisioning models as part of the strategic plan. The said amendments related to the liquidation period for collateralised defaulters from 4,6 to 5,2 years resulting to a charge of approximately €12,9 million.

The Group's cost of risk (annualised) for the year ended 31 December 2018 amounted to 0,8% (31 December 2017: 2,1%).

Under the terms of the Acquisition the Bank and CCB entered into an asset protection scheme agreement (APS) to protect €2,3 billion of the acquired loan portfolio (fair value as at the acquisition date) against future losses, with the Republic of Cyprus providing a direct guarantee to the Bank of ex-CCB's obligations under the APS Agreement. This provides for ex-CCB to pay to the Bank 90% of the losses that the Bank incurs in connection with defined pools of loans and receivables (the "APS Assets") which are part of the Assets. The Bank's losses in respect of the APS Assets include impairment losses, losses on sale and costs of recoveries. This resulted in an indemnification asset being recognised on the Bank's Statement of Financial Position in other assets and as at 31 December 2018 was €64,2 million. The Bank also recognised an indemnification asset in relation to certain off-balance sheet exposures amounting to €6,8 million. In accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Assumed Liabilities which include various off balance sheet exposures. The amortisation of the indemnification asset is included in the charge for impairment losses and provisions to cover credit risk.

The APS is a single contract providing credit protection in respect of parts of the acquired loan portfolio against future losses to the Bank. There is no change in the recognition and measurement of the covered assets as a result of the APS. The impairment on covered assets measured at amortised cost is assessed and charged in accordance with the Group's accounting policy with no adjustments to reflect the protection provided by the APS.

Share of results in associate net of taxation
The share of results in associate net of taxation, for the year ended 31 December 2018 amounted to €2,2 million profit compared to €0,8 million profit for a period of six months in 2017.

Taxation
The Group's taxation for the year ended 31 December 2018 amounted to a tax credit of €0,6 million (2017: €3,5 million tax credit) and included an amount of €0,9 million corporation tax charge and €1,5 million deferred tax (credit). A deferred tax of €1,7 million was debited in the Income Statement as a result of the reassessment of future taxable profits (taking into consideration the Acquisition) against which the existing taxable losses can be utilised. Furthermore, an amount of €3,6 million was credited in the Income Statement representing the movement of the temporary difference arising from the negative goodwill recognised on Acquisition. The Banks's taxation for the year ended 31 December 2018 amounted to a tax credit of €1,3 million (2017: €3,5 million tax credit) and included an amount of €0,3 million corporation tax charge and €1,6 million deferred tax (credit).

Statement of Financial Position Analysis
As at 31 December 2018, the Group's and the Bank's total assets amounted to €16,1 billion, and were significantly increased compared to €6,8 billion as at 31 December 2017, as a result of the Acquisition. The upward movement was largely reflected in investment assets and loans and advances to customers.

Deposits
The Group's and the Bank's customer deposits amounted to €14,7 billion as at 31 December 2018 (31 December 2017: €5,8 billion). They comprised of €13,7 billion deposits in Euro (31 December 2017: €4,7 billion) and €1 billion deposits in foreign currencies (31 December 2017: €1,1 billion), mostly in US Dollars. The increase in total customer deposits is primarily due to the absorption of CCB's deposits following the Acquisition. As a result, the Bank's deposits market share2 as at 31 December 2018 has risen to 30,9% (31 December 2017: 11,9%).

Loans

The Group's and the Bank's gross loans as at 31 December 2018 amounted to €7.636 million, up by 88% compared to €4.055 million as at 31 December 2017. The performing loan portfolio increased by 173% while the non-performing loan portfolio increased by 14% compared to 31 December 2017. During 2018 exposures of €140 million were written off (2017: €147,8 million). The fair value of the loan portfolio absorbed as part of the Acquisition as at 1 September 2018 was €4.040 million and consisted of €3.607 million performing exposures and €433 million NPEs. As a result, the Bank's loan market share as at 31 December 2018 increased to 19,5% (31 December 2017: 8,1%).

The net loans to deposits ratio stood at 42,7% as at 31 December 2018 (31 December 2017: 47%).

Total new lending approved during 2018 reached €594,4 million (2017: €525,8 million). The Bank continued providing lending to creditworthy businesses and households while examining other growth opportunities.

Loan Portfolio Quality

As part of the Bank's "Deleveraging" strategy, on 6 June 2018 the Bank completed the disposal of a non-performing loan portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd ("the Transaction"/ "the NPE trade agreement"). The gross contractual outstanding balance of the portfolio was €144 million comprising of 1.082 borrowers and 1.809 facilities (in each case as at 31 May 2018). As at 31 December 2017, the carrying amount of the said non-performing loan portfolio, was classified in other assets as assets held for sale.

To that extent during the first half of 2019 the Bank has embarked on a preparation phase to review the feasibility of different NPE reduction structures with the aim of identifying the option that best meets the Bank's strategic objectives. The preparation phase will involve definition of the NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and in order to conclude on the best possible structure, the Bank will engage international advisors, and is proceeding to engage in high level discussions via the signing of confidentiality agreements with various third parties that may be interested in pursuing a possible collaboration with the Bank. Such third parties include investment banks and financial investors.

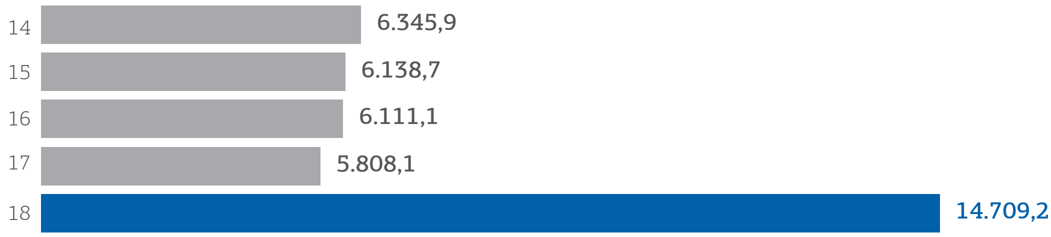
The Group's and the Bank's NPEs amounted to €2.474 million as at 31 December 2018 and compared to €2.162 million as at 31 December 2017, recorded an increase of 14%. The upward movement in the level of NPEs was triggered by the Acquisition, as it included an amount of €433 million of NPEs as at 1 September 2018, of which the majority is covered by the APS agreement. Terminated loans included in NPEs amounted to €1.523 million as at 31 December 2018. The Group's and the Bank's gross loans with forbearance measures as at 31 December 2018 amounted to €1.612 million (31 December 2017: €1.081 million).

The Group's and the Bank's NPEs to gross loans ratio as at 31 December 2018 was reduced to 32,4% (31 December 2017: 53,3%).

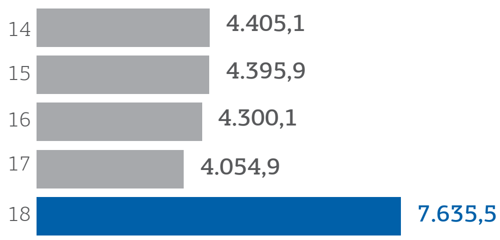
The Group's and the Bank's total accumulated impairment losses, amounted to €1.352 million as at 31 December 2018 (31 December 2017 : €1.326 million) and represented 17,7% of the total gross loans (31 December 2017: 32,7%).

The NPEs provision coverage ratio stood at 54,6% as at 31 December 2018 (31 December 2017 : 61,3%). Taking into account tangible collaterals the net NPEs collateral coverage ratio stood at 132,4% as at 31 December 2018.

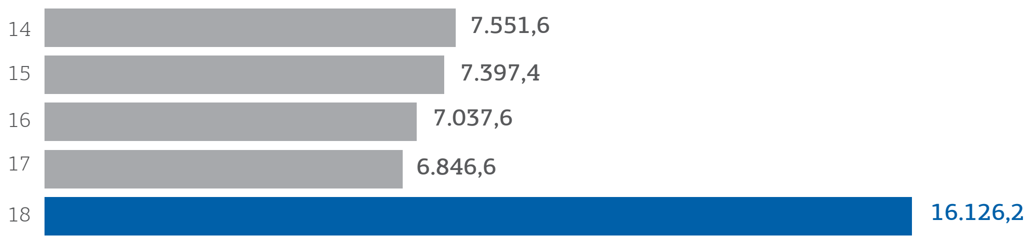
customer deposits
and other customer
accounts
€ MILLION



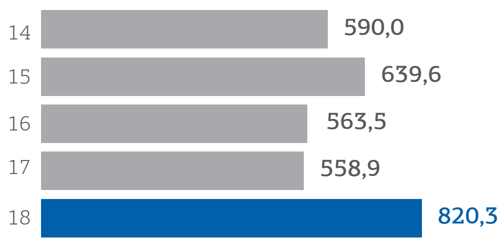
loans and
advances to
customers
€ MILLION



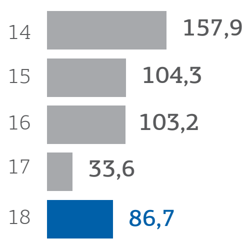
total assets
€ MILLION



equity attributable
to shareholders of
the parent company
€ MILLION



group profit from
ordinary operations
before impairment
losses and provisions
to cover crecit risk
€ MILLION



GROUP OPERATIONS & HEAD OFFICE SUPPORT SERVICES

CORPORATE BANKING DIVISION

The Corporate Banking Division's primary and perennial goal is to continuously provide upgraded and ever-improving qualitative services to large businesses, public companies and semi-governmental organizations that operate in Cyprus.

A basic element in the achievement of this goal is a professional, friendly and effective customer service, as well as the provision of consulting the services to address customers' current and future needs. Emphasis is given to the study and analysis of the key factors which affect the operations and cash flow of companies in order to determine the necessary measures for dealing with the risks associated with each financing.

Apart from the management and consolidation of the existing portfolio, the aim is to attract new customers with healthy economic profiles while developing the portfolio of existing clients. All officers who staff Corporate Centres, are academically qualified and experienced to deliver prompt and effective customer service as their primary objective.

The Division is the Group's main lending unit and is primarily funded by the deposits of the Retail Division's branch network. The Corporate Banking Division, in cooperation with other units and departments of the Group, provides integrated solutions which include the full range of products and services offered by the Group and are in line with the continuously changing financial needs of customers, as outlined below:

- Overdraft accounts
- Long-term loans
- Short-term loans
- Hire purchase loans
- Factoring facilities
- Letters of credit
- Bills for collection
- Letters of guarantee
- Credit cards (company and personal).

These facilities are aimed at all sectors of the economy and are marketed according to the strategy of the Bank at the time.

BUSINESS SERVICES DIVISION

The Business Services Division was established to better serve the Small and Medium-Sized Enterprises (SMEs) sector, which constitutes the backbone of the Cypriot economy. It offers contemporary and continuously upgraded services and specialized products aimed at fully meeting the banking needs of SMEs active in all sectors of the economy and their directors and shareholders. Given the huge challenges faced by the Cyprus economy, the Division's primary objective has been to support businesses whilst developing and maintaining a perennially professional and human relationship through a high-quality, friendly and prompt service. The Business Services Division is staffed by qualified, experienced and specialized Credit Relationship officers who offer a professional and effective service to SMEs. The broad range of the Group's products and services and the continuously upgraded and technologically developed systems form the foundation for building strong client relationships.

The Division plays a key role in providing financial solutions for the development of sustainable businesses and the utilisation of European funding programmes. Strengthening the infrastructure of the Business Services Division has been set as one of the Group's strategic priorities as the SME sector presents the potential for future growth.

RETAIL DIVISION

Retail Division services individual customers and small businesses, as well as all customers of other divisions for their day to day banking transactions, through its Branch Network. During 2018 the focus was on further enhancing quality of service, expanding customer base and increasing lending portfolio, mainly through housing loans, as well as maintaining and monitoring quality of lending portfolio.

Following Hellenic Bank's agreement to acquire certain assets and liabilities of the former CCB, which took effect on September 1st, 2018 a project to rationalise the former CCB branch network was initiated. Out of 172 branches 75 were closed, in rural as well as urban areas. As at 31st December 2018, the footprint of the combined entity increased to 128 full branches and 21 cash offices with a total number of 1.260 staff members.In addition, we established a new concept of branch in branch (combined branches that service clients of both former CCB & Hellenic Bank) which will be further expanded until full integration of systems. During 2019, rationalization of branch network will continue with additional mergers/ closures of branches.

It should be noted that on November 12th, the first mobile branch unit was successfully launched, servicing 12 communities, while on January 21st, the second unit started operations serving additional 15 communities. Our aim is to service customers that reside in communities where former CCB branches used to operate and they do not have easy access to banking services. During 2018 we continued to focus on education and migration of customers to alternative channels (ATM, web banking, mobile app) with a view to extend service hours past traditional branch opening hours. We have already ordered 100 new generation ATMs in order to replace all ATMs of former CCB branch network. At the same time, we started implementing our Bank's procedures and processes at former CCB branch network.

Following the agreement of 1st September, the Division increased substantially, its presence in Cyprus households, its lending/deposit portfolio and has the biggest branch network in Cyprus.

The main challenge of 2019 is the successful integration of systems and processes of former CCB to those of Hellenic Bank, staff training and upgrading of service provided to our new clientele.

INTERNATIONAL BANKING DIVISION

In 2018 the International Banking Division of Hellenic Bank remained on a course of growth and continued profitability. Through a wide range of services supported by advanced technology and experienced staff, the International Banking Division provides comprehensive financial services to corporate, institutional and private clients worldwide.
All centres have succeeded the certification of the ISO9001:2015 quality standard.

The Division implements with great care the principles and compliance guidelines of the regulatory authorities. The investment in human resources of the Division, through increased training programs was again a priority this year, in order to better fulfill the evolving needs of our customers and the economic environment.

In 2019 the International Banking Division will continue to expand its international activities, by strengthening its business relationships with the Group's associates and customers.

PRODUCT DEVELOPMENT DEPARTMENT

The Product Development Department monitors developments in the banking sector, investigates customers' needs through market research and analysis of their suggestions and complaints, and develops products that meet those needs. The Department receives suggestions from the Bank Divisions that are in direct contact with the customers (e.g. Corporate Banking Division, the Retail Division) and cooperates with them for the introduction of new products and services.

At the same time, the Department monitors the Bank's products,analyses their performance and adjusts them where necessary. It also monitors international trends in banking products and works towards the development of innovative products and services aimed at the greatest possible satisfaction of customer needs. During 2018, it both developed new products and revised a number of existing schemes, while continued to offer support to the Bank's branches and business centres with regards to the promotion and sales of the various products.

TRUST & CUSTODIAN SERVICES

Hellenic Bank's Trust & Custodian Services Unit, is recognized as one of Cyprus leading providers of custodian services offering local and international investors with a suite of superior asset servicing solutions. The Bank, participates as an Operator and General Operator in the Central Securities Depository of Cyprus (operated by the Cyprus Stock Exchange) and in the Hellenic Central Securities Depository (ATHEXCSD), while also enjoying a selective network of reputable sub-custodians effectively covering all major international markets. Services offered include safekeeping of client assets, cross-border settlement and clearing of trades, and other common custodial functions, such as collection of income arising from client assets under safekeeping, notification and dealing with corporate actions, provision of information on the securities held under safekeeping, cash management and tax reclamation.

In 2018, the Unit reinforced its focus on the provision of depositary services within the Alternative Investment Fund regulatory framework, while remaining actively engaged in the efforts to promote the Cyprus Investment Fund industry via its participation and close cooperation with the Cyprus Investment Funds Association (CIFA).

To this end, the Unit is currently in the process of replacing and upgrading its software systems with a specialized platform providing high-end solutions as well as expanding its workforce with mature professionals aiming at establishing itself as one of the leading depositary service providers in Cyprus.

PRIVATE BANKING UNIT

The Private Banking Unit is a specialist unit offering premium banking and investment services to high net-worth individuals both in Cyprus and abroad. Its activity in international markets is underpinned by a strategic focus on:

- Tailored investment advice following evaluation of customers' investment and banking needs by one of our CySEC certified Investment Advisors;
- Competitively priced global market access across a broad range of asset classes and asset managers;
- Continuous upgrade of the Unit's infrastructure, staff training and development.

2018 was a watershed year for the investment services industry with adoption of MiFID II from January 2018. Assets under management (AUM) levels have remained stable against this backdrop and coupled with a volatile external environment which includes macroeconomic pressures and technological disruption, the Unit has focused on the evolution of the Private Banking model with view to responding to those competitive challenges.

INTERNATIONAL LENDING UNIT

The International Lending unit was set up in 2016 as part of the strategic initiative of the Bank to pursue growth opportunities in overseas markets. The objective of the Unit is to build a diversified portfolio of international syndicated loans across countries and industries. The selection space includes primarily corporates in the sub investment grade space that can also be owned by Private Equity Funds.

DATA & ANALYTICS

The Data & Analytics unit offers centralised services on data management and analytical model development towards all departments of the Bank. The Unit maintains the data structure of the Bank, implements data management and quality processes, designs internal and regulatory reporting and promotes the development of the data culture in the Bank.

In relation to the analytical support, the Unit leads the development of models that support a wide range of the Bank's activities such as models for risk measurement (e.g. scorecards), pricing, strategic development, collective provisioning under IFRS 9 and stress testing. In addition, the Unit provides analytical support for the Bank's strategic and capital planning.

CARD SERVICES

During 2018, Hellenic Bank Card Services continued their contribution to the Group's income, while at the same time managed to strengthen Hellenic Bank cards' position within the market, both in numbers and utilization. Increasing cards' usage is a timeless goal that is being achieved through the continuous improvement of the services offered, as well as through the addition of new card products to the existing portfolio.

Within this framework, and after conducting several market surveys and analyzing customers' feedback, specific needs had been identified for which a series of actions have been scheduled to run. These include the launching of new card products as well as upgrades of the existing services and card portfolio.

Throughout 2018, emphasis was also given into strengthening customer relationships by offering them substantial return benefits, that among others, include the Points4u rewards scheme and rewards through various ad-hoc promotions, discounts in selected merchants and travel insurance coverage.

In the field of card transactions security, which is considered one of the greatest priorities for Hellenic Bank, the department continued investing in security solutions, based on the international standards and requirements set by Visa and Mastercard.

TREASURY DEPARTMENT

The Treasury Department is responsible for managing the Bank's investment portfolio, as well as the market and liquidity risk of the Bank, always acting within the policies and frameworks approved by the Assets and Liabilities Management Committee (ALCO), and the risk appetite limits set by the Board.

The Department plays an important role in the formulation and implementation of the Bank's interest rate strategy, and ensures that the Bank continuously maintains a comfortable liquidity position, within internal and regulatory thresholds. During 2018, Treasury continued to invest part of the Bank's excess liquidity in fixed income instruments, with the aim of increasing interest income while maintaining Interest Rate Risk in the Banking Book (IRRBB) within risk appetite. The remaining liquidity continued to be placed in short term interbank deposits and the European Central Bank (ECB).

In 2018, Treasury integrated the treasury operations of the now resolved CCB, while its revenues significantly increased, compared to the previous year, primarily due to the addition of former CCB's Cyprus Government Bonds to its portfolio of investments.

DEALING ROOM

Dealing Room (DR) is active in the FX market, with a fairly wide range of currencies to negotiate, offering professional services and competitive pricing to customers. Despite the difficulties of the recent years, it maintains a fairly stable and significant profitability from currency conversions.

Since January 2018, following the implementation of the MiFID II framework, it acts as a Brokerage Desk for executing orders of Private Banking clients for equities, fixed income, precious metals, mutual funds and other financial products.

OMNICHANNEL & CUSTOMER EXPERIENCE

As set by its long-term strategic objective, the Bank continues to promote a "digital first" approach by leveraging emerging digital technologies across all customer touchpoints.

The primary objective is to reach an end state where the customer receives a seaming-less customer experience across different channels. The focal point has been to improve the existing digital offering while at the same time design the appropriate channel migration strategy that will incentive more customers to perform traditional banking activities through alternative channels (web, mobile, ATM).

The following have been implemented within 2018:

- Rolled out key advances of the mobile and web banking channels, offering continuous updates and new features.
- Kicked off the branch rationalization and optimization exercise that will reshape the branch type and role playing an instrumental part in channel migration.
- Improved and established a consistent and in sync customer and brand experience across all touch points (seamless customer journeys).

- Developed and implemented an API-oriented approach for servicing corporate clients through ERP connectivity. The bank has been successful in onboarding more businesses onto the B2B offering through ERP connectivity from various industries i.e telcos, entertainment, shipping.
- Further developed the B2B ecosystem with the promotion and use of six public APIs for straight through payment processing between the Bank and third parties. This enables client ERP systems to establish a secure and direct communication with the Bank for straight-through processing of payments.
- As a strategic pillar, the Bank also enhanced the proprietary store that was integrated into the business web banking channel to help customers choose, activate and manage 3rd party products/ platforms/ applications (apps).

NPA DELEVERAGING (FORMER NPL MANAGEMENT)

Reduction of NPLs while at the same time maximizing the value of recoveries, continues to be one of the main strategic objectives of the Bank.

The Bank aims to achieve its objectives through both internal and external servicing of the NPL portfolio. It continues to maintain an in-house capable Business Advisory Unit with the aim to support corporate clients in early arrears as well as a fully functioning retail support call center. Externally, it has appointed APS Debt Servicing Cyprus Ltd (APS Cyprus), since July 2017, to manage its legacy NPL portfolio.

Business Advisory Unit (BAU)

The BAU is a centralized Unit within the Bank focusing on managing early arrears of the Business Division. It conducts all restructuring efforts/ proposals (as a leader or advisor) for Business clients with group gross exposure >€500k. BAU also monitors clients with no-arrears exhibiting warning signs of financial distress and assumes a lead role if deemed necessary by proactively engaging into restructuring activities.

In 2018, the Unit had effectively completed viable restructuring solutions on remaining 'legacy' cases of the Business portfolio of the Bank exceeding >€90m which included significant amounts of cash collections as well as D2A transactions. Towards the end of 2018, attention was mostly shifted on complex cases transferred to the Bank from the Business portfolio of former CCB of business clients exhibiting arrears.

Looking ahead, the main mission of the Unit is to efficiently and proactively manage arrears and distressed assets of the Bank by providing continuously enhanced and effective restructuring solutions/ services to Business Clients of the Bank who exhibit signs of financial distress.

APS Debt Servicing Cyprus (APS Cy)

Since the commencement of its operations in July 2017, APS Cyprus has been instrumental in assisting the Bank to accelerate its NPL reduction targets.
This is reflected through APS Cyprus's operational and financial achievements. Today, APS Cyprus is the pioneering "stand alone", fully functioning servicing platform on the island with expertise in the management of both NPLs and REOs. It is therefore in the unique position to attract new business, fully benefiting from a first mover advantage.

Going forward, the Bank will further benefit from APS Cyprus' control over legacy NPLs by continuing to shift its attention towards the management of early arrears and the monitoring of new NPLs.

The NPA Deleveraging team has been set up within the Bank with main responsibilities of managing the relationship with APS Cyprus, setting up the strategy in relation to non-performing assets as well as exploring other opportunities and tools to accelerate the deleveraging of the problematic portfolio of the Bank.

To this end, the Bank, in June 6th 2018, completed an agreement to sell a non-performing loan portfolio of predominantly non-retail secured and unsecured exposures to B2Kapital Cyprus Ltd. The transaction was very successful and proved the Bank's operational capacity to undertake similar initiatives.

TRANSACTION ADVISORY

The Transaction Advisory department is a newly established department dedicated to seek new opportunities for the Bank to expand into new markets, through suitable corporate ventures, as well as to engage in opportunistic M&A activities with the aim to realise the Bank's growth ambitions.

The core team has been delivering strategic advice to the Bank and has been instrumental for the execution of its most important transactions to date, including:

1. Negotiation, execution and implementation of the agreement executed with APS Holdings regarding the carve-out of the internal arrears unit of the Bank and the establishment of APS Cyprus, the first NPL servicing platform established in Cyprus.
2. The disposal of the first NPL portfolio in Cyprus comprising of predominantly non-retail secured and unsecured exposures amounting to €145m, to B2Kapital Cyprus Ltd.
3. The acquisition of certain assets and liabilities of the former CCB, establishing Hellenic Bank as the largest retail and SME bank in Cyprus.

The team is currently working towards the execution of new opportunities related to NPL transactions, both on the sell side as well as a potential lender to reputable buyers of distressed assets. In addition, it has taken a more active role in overseeing the insurance arm of the Group with the aim to improve the fee income generation.

PANCYPRIAN INSURANCE LTD

In 2018, Pancyprian Insurance Ltd ranked 4th in General Insurance Business in Cyprus, with market share of 7,9% as of 30 September 2018. It maintained ample liquidity and at the same time prudently managed the great challenges faced by the insurance industry.

The general insurance market increased by 5,2% during the first nine months of 2018 compared to the corresponding period in 2017. Pancyprian recorded an increase in premiums of 5% in 2018 compared to 2017. In the context of its strategic target for increasing income and profitability, the company placed emphasis on its contemporary and competitive products which will be continuously upgraded in order to meet market needs. It cooperated with the Bank's business units in intensifying efforts to attract new Hellenic Bank customers. In addition, it strengthened efforts to attract new reputable agents by promoting its reliability. Pancyprian Insurance also continued its efforts to improve productivity through the implementation of new procedures, automation and technological upgrades with an ultimate aim of reducing its operational costs and improve customer service.

In the years to come, the Company will continue to place emphasis on the improvement of profitability in all insurance classes. Great importance will also be given on the improvement of the premium collection period through the improvement of monitoring procedures and the management of outstanding balances. Specifically, collection teams will be strengthened, stricter monitoring mechanisms will be implemented, and incentives will be offered for quicker collections. Due to its ample liquidity and despite the negative environment, Pancyprian Insurance continued to respond to its clients' demands in a timely, fair and human manner, confirming its reputation as one of the most reliable General Insurance Companies. The Company maintains a strong capital base and is compliant with its obligations arising from the European Solvency II Directive, which came into effect on 1st January 2016.

HELLENIC ALICO LIFE INSURANCE COMPANY LTD

Hellenic Alico Life Insurance Company Ltd (HAL) managed to achieve satisfactory premium income and maintain its high penetration rates to new customers. It has also achieved a high profit margin which resulted in a significant contribution to the Group results. The Company's philosophy of providing products characterised by their simplicity and ease in their promotion lead in the achievement of very satisfactory company results. The key element in the development of the Company's products are customer needs and provision of financial security for them and their families in the case of an unforeseen event that may leave them financially exposed.

The Company's products are divided into two main categories, Credit life products and other products (non-bank facility related). Further to the acquisition perimeter of the former CCB and its relevant customer base, Hellenic Bank has entered into a Group Life Insurance Contract with HAL to ensure that clients whose credit facilities have been transferred from former CCB to Hellenic Bank continued to enjoy relevant coverage.

REPRESENTATIVE OFFICES

The Representative Offices continued to successfully represent the Group overseas via a strong presence in Russia with offices in Moscow and Saint Petersburg, in Ukraine (Kiev) and in South Africa (Johannesburg). Representative Offices provide updates and information on the entire range of the Group's services through their experienced and highly-qualified staff.

Clients active overseas are therefore able to benefit from the physical presence of the Group in these three markets. Another important role of Representative Offices is to monitor the local political and economic situation as well as legal and business environment, contributing to the timely adoption of measures to protect the Group's and its clients' interests.

SHIPPING CENTRE

The Shipping Centre is the bank's competent centre for the handling of all customer relationships with maritime related activities, with a successful presence in the industry for more than two decades. It provides to shipping companies, in Cyprus and abroad, a wide range of specialised transaction banking products and services which include:

- Current accounts in all major currencies
- Cash management services
- Spot and forward foreign exchange
- Deposits
- Escrow accounts and conditional payments
- Letters of credit and bank guarantees
- Credit and Debit Cards
- Integrated electronic banking services.

During 2018, the dedicated Shipping Centre team increased the Bank's footprint and delivered satisfactory results with a further increase in the operating profit in a highly competitive market environment.

SHIP FINANCE UNIT

The Ship Finance Unit is a specialized lending unit and responsible for the management of the Bank's ship finance portfolio. 2018, which marked the second fully operational year of our Ship Finance Unit, after being established in 2016, was another successful year.

In a still challenging shipping market environment, characterised by firm dry bulk markets, but weak tanker markets for a large part of the year and an increasingly competitive landscape in the lending markets, the Ship Finance Unit has maintained its conservative and targeted lending approach with a clear focus on risk quality and successfully expanded the portfolio of loans.

RISK MANAGEMENT

The Risk Management Unit (RMU) encompasses the strategy, policies, procedures, systems and organisational set-up that the Bank requires to be in place to identify, assess, treat, monitor and continuously control the risk exposures that arise from its day-to-day activities.

The Unit's mission is as follows: "Instill, embed and foster a risk culture, capabilities and practices that are seamlessly integrated with strategy-setting and execution and which strive to manage risk in pursuit of creating, preserving and realizing value for the Group's shareholders, while preserving depositors' funding and trust. This is to be achieved by adopting the best practices in risk management and corporate governance and by complying with all relevant regulatory obligations".

ENTERPRISE RISK MANAGEMENT & GOVERNANCE (ERMG)

This Unit is a horizontal function that facilitates the holistic management of risk, by bringing together all of Risk Management's activities under one integrated structure. The Unit manages the interaction between different risk types, thereby helping achieve a sustainable risk profile for the Bank and in co-ordination with key stakeholders.

During 2018, ERMG coordinated risk-based assessments and strategic projects, including the formulation of the Bank's Risk Appetite Statement, ICAAP, Stress Testing exercises, Governance reforms, etc. ERMG effectively engages other departments within the Bank and/ or regulatory bodies as required by the Senior Management. The Unit also undertakes independent Model Risk Oversight, Governance, Model Assessment and Validation. Additionally, ERMG ensures frameworks, policies and processes are consistent with the Enterprise Risk Management Framework and in line with appropriate governance.

CREDIT RISK MANAGEMENT

The management of credit risk constitutes a fundamental process in the operation of a bank and it is of vital importance to its long-term robustness. The Group employs various policies of detection, measurement, monitoring, reporting and management / mitigation of credit risk in the Bank's Loan Book. The Group simultaneously engages in frequent and ongoing revision and redrafting of these policies based on supervisory Directives and best practices, as well as its strategic objectives and emerging developments in the local and international economies.

The Credit Risk Management Department closely monitors the composition and quality of the Loan Portfolio and, as appropriate, takes preventive or corrective action. During 2018, the Department formulated a number of policies and procedures for the identification, measurement, approval, management and reporting of credit risk, which were approved by the Board of Directors. Emphasis was placed on the monitoring of the Bank's loan portfolio through the preparation of reports to both the Executive Management and BRMC. Credit risk monitored the composition and quality of the credit portfolio including non-performing and forborne portfolio of the Bank via a defined set of Key Performing Indicators (KPIs) and proposed corrective or emergency (where needed) measures for the improvement of the portfolio quality and the mitigation of credit risk. Focus was placed on NPLs and the progress made in restructuring loans which were in arrears or which presented a high risk of becoming non-performing. Equal attention was also given to the monitoring of the performing book and new lending granted.

To this end, the Department prepared monthly and quarterly reports for both Senior Management and the Board of Directors, as well as the supervisory authorities. Credit Risk Management is the responsible department for the calculation of credit Risk Weighted Assets (RWA) which, as at 31st of December 2018, comprise 83% of the total Group RWA base.

The Department ensures the accuracy and adequacy of provisions through the validation of individual assessments for a number of borrowers. Also, examines the parameters set for the calculation of impairments for credit losses and makes the relevant recommendations.

MARKET & LIQUIDITY RISK

The Market & Liquidity Risk Unit focuses mainly on the identification, assessment, monitoring, control and management of liquidity risks and market risks (interest rate risk, foreign exchange risk and price risk) emanating from the Bank's balance sheet. In relation to liquidity risk, emphasis is placed on the continuous monitoring and reporting of the Bank's compliance with regulatory liquidity limits and changes in the Bank's internal liquidity ratios, proposing actions and measures for their improvement, if and when needed.

The evolution of deposits, their sources of origin, as well as their structure is also closely monitored. At the end of 2018, the Bank maintained high levels of liquidity, which increased significantly after the acquisition of certain assets and liabilities of former CCB and met all relevant regulatory limits.

In utilizing its excess liquidity, the Bank invested primarily in sovereign and supranational bonds in euro and in foreign currency. The Unit also played an instrumental role in updating, during the year, the Hellenic Bank Investment Framework, which includes the general principles, guidelines and investment limits which govern investments in fixed income securities and international loans. The Investment Framework update included amongst other changes, the large increase by €4.1 billion in the Bank's investments in Cyprus Government Bonds, which were onboarded as a result of the acquisition. The Unit also regularly monitors exposures which are sensitive to interest rate movements. At the end of the year, interest rate risk remains well below regulatory limits. During the year, the European Banking Authority (EBA) published updated guidelines for IRRBB and the Bank has been working towards the implementation of these guidelines.

The Unit participated, for yet another year, in several regulatory exercises. Among them was the Internal Capital Adequacy Assessment Process (ICAAP) that the Bank conducted. ICAAP's aim is to assess the Bank's capital adequacy given the risks that are related to the Bank's operations, the complexity of its activities and the risks emanating from the structure of its balance sheet.

The Unit also had an instrumental role to play in carrying out the Bank's Internal Liquidity Adequacy Assessment Process (ILAAP). Based on the European Directive 2013/36/EU (CRD) and the guidelines of the EBA, the Bank is required to assess the adequacy of its liquidity risk management processes and the degree to which its pool of liquid assets is commensurate with the Bank's risk profile and risk appetite of its Board of Directors. Through ILAAP, a series of stress test scenarios were conducted which showed that, for 2018, the Bank held satisfactory liquidity to implement its strategic plan and, even more importantly, to withstand a series of adverse scenarios of deposit outflows.

Finally, the Unit actively participated, throughout the year, in the functioning of ALCO, with frequent reports and presentations regarding the risks monitored and suggestions for their mitigation or management, thus facilitating ALCO in reaching important decisions.

OPERATIONAL AND EMERGING RISK

The Operational & Emerging Risk Unit (OER) is placed under the Risk Management Unit and reports directly to the Chief Risk Officer. It is responsible to design, maintain and oversee the implementation of Operational Risk Management Framework and the relevant policies and procedures and develops appropriate tools and methodologies to be used by business units.

OER suggests improvements and mitigation actions, where necessary, providing an 'independent challenge' to the 1st Line of Defence, suggests appropriate limits in line with the Bank's Risk Appetite as well as it supports the operational risk scenario development and analysis process.

OER considers the integration project as its highest priority and devotes significant resources under the various integration workstreams to become aware, provide support and ensure measures are taken to minimize relevant operational risks.

CREDIT MONITORING & CONTROL

The objective of the Unit is to monitor the quality of Bank's credit portfolio through the Early Warning Mechanism and the efficiency of early warning indicators. The Unit is expected to alert the Bank's management in case:

- of deterioration observed in portfolio's credit quality,
- of identified controls that could be set-up to mitigate identified risks.

Further, the Unit is responsible to test compliance of business units with Bank's Credit Policies. The function of the Unit is performed through the analysis of the various segments of the Bank's portfolio, monitoring of KPIs as well as through reviews of individual clients/ groups. The depth of the monitoring of the portfolio depends also on the level of the credit risk of the borrower/ portfolio.

During 2018 the Unit has been closely monitoring the Bank's portfolio through Watch List Reports (performing portfolio) to assist in strengthening the 1st Line of defense (Business Units) in the monitoring of their borrowing clients, take early appropriate action (i.e. pre-arrears / early arrears) and prevent deterioration of the credit quality of the portfolio.

CREDIT ANALYSIS & EVALUATION

The Unit was set up in the H2 2017, in order to provide an independent second line of defense advice and recommendations to Loan Approval Committees for Corporates, SME's, International Lending and Shipping, and advise on appropriate risk mitigation measures for existing and new proposed loan and guarantees transactions. Additionally, the Unit reviews the Arrears and Property Management cases proposed by APS and the Business Advisory Support Unit and provides advice and recommendations to the relative committee.

Moreover, the Unit performs credit counterparty risk assessment for treasury limits/ settlement and international lending transactions, in line with the Bank's Investment Framework. The Bank's Treasury portfolio remains positioned mostly in countries and/ or banking institutions with a good credit rating.

INSURANCE RISK MANAGEMENT

The Insurance Risk Management Unit is responsible for the entirety of the risk management function of the Insurance subsidiaries of Hellenic Bank (Pancyprian Insurance Ltd, HAL), under a Service Level Agreement signed between the Bank and each subsidiary.

The objective of the Unit is the efficient and effective management of risks in accordance with the risk appetite of each Insurance Company. In order to achieve its mission, the Unit designs and implements strategies, policies, processes and reporting procedures necessary to identify, measure, monitor and report the risks on an individual basis as well as on an aggregate level.

RISK ANALYTICS

Risk Analytics supports primarily Risk Management's credit risk modelling matters. It focuses on the analytical elements of Risk Management, with emphasis on credit risk issues, such as risk appetite modelling, capital stress testing models, collective provisioning, IFRS 9, rating and scoring models and regulatory and internal reporting. The Unit is also mandated to provide computational and analytical support to other RMU Units.

COMPLIANCE UNIT

The Compliance Unit (CU) is responsible for the review of the local and international legislative and regulatory framework that governs the Group's operations, the identification of risks with regard to the Group's compliance with this framework and the formulation of suggestions towards their mitigation.

In this respect, CU sets the fundamental principles of promoting a corporate culture of compliance and integrity across the Group with the purpose of embedding appropriate and effective compliance management. The CU categorizes its operations into the following main areas:

- Anti-Money Laundering (AML), dealing with the combatting of money laundering, terrorism financing (TF) and economic sanctions (ES). This area is of particular importance given the great emphasis placed on the subject internationally.
- Regulatory Compliance (RC) addressing the compliance requirements aiming to ensure compliance with the Cyprus and European legislative and regulatory framework that govern the Group's operations.
- Analysis & Quality Assurance (QA), which relates to the provision of reasonable assurance across key compliance risks as second line of defense. This area addresses the effectiveness of the existing internal controls and adopts a risk based approach to continuously monitor the Group's exposure to compliance risks and the need for the enhancement of existing and/or the implementation of new controls in order to eliminate compliance risks or to reduce them to an acceptable level.
- The Data Protection Office (DPO), provides advice to and monitors compliance of the Group with the Regulatory framework concerning the protection of personal data of natural persons including the General Data Protection Regulation.
- Insurance Compliance: Hellenic Bank and Insurance Companies (HAL and Pancyprian Insurance) entered into a Service Level Agreement for the provision by the Bank to the Insurance Companies of Compliance Services. CU is responsible for undertaking the Compliance function of HAL and Pancyprian Insurance as per their Compliance Policy and applicable Laws and Regulations.

The scope of compliance continues to be broad and complex, with a significant impact on the business. As regulatory expectations continue to increase, the challenge is to successfully implement a compliance program that constitutes a proactive component of the institution's risk management culture embedded in the Group's business Units.

In 2018, CU continued the efforts to strengthen the Group's AML/CTF compliance program. Among other actions, CU proceeded with the following:

- Ongoing verification of customers' data that form the basis of an appropriate Know Your Customer practice (KYC).
- Further upgrade of the Group's transaction monitoring system for the identification of AML/CTF suspicious activity.
- Further enhancement of the RC program to address the wider range of compliance requirements aiming to ensure compliance with the applicable legislative and regulatory framework that govern the Group's operations.
- Expansion of the monitoring program of the main AML/CTF program controls through a sampling procedure.
- Further enhancement of the AML/CTF training program, both for the CU staff and for all Hellenic Bank Group staff.
- Further enhancement of human resources, increasing the number of the CU staff to 63, of which 42 handle AML/CTF matters.

In 2018, CU continued to strengthen the monitoring program of the stringent data protection requirements deriving from the new Data Protection regulation so as to uphold the Group's commitment to maintaining the protection of its customers' data. Furthermore, the CU continued the implementation of high standards and best practices that relate to the Group's compliance with the requirements of the Common Reporting Standard (CRS) and U.S. Foreign Account Tax Compliance Act (FATCA).

OPERATIONS

2018 was a year of re-organization for Operations. At the beginning of the year it had to cope with the VRS which took place at the end of 2017 and which reduced Operations workforce by a third. In the course of the year and following the former CCB deal, Operations undertook the Integration project as well as additional departments that came under Operations umbrella. More specifically, the Transformation Office, the Customer Contact Centre, the newly formed Fraud Management Operations and the Operations Support. Operations focus in 2018 was on the Initiative "Centralization, Simplification, Automation, Outsourcing" with notable results achieved which were calculated to almost 50 staff saved in terms of man days. In Q4, HB and former CCB Operations departments merged in the context of premises and alignment of procedures. The prospect of Integration is expected to lead to significant synergies.

INTEGRATION

The transaction for the acquisition of certain assets and liabilities of former CCB was successfully completed. Approximately 400.000 unique and active customers were onboarded, the majority being retail individuals. As part of the transaction, a Transitional Services Agreement was agreed with the former CCB residual entity to offer operational services to Hellenic Bank for a period of 15 months.

A total of 1.100 employees were successfully onboarded. Initial integration actions were completed, including cardholders being serviced through combined ATM network and same day SEPA transfers across banks, with no fees. Additionally, a credit approval process was established for former CCB customers through Hellenic Bank channels.

A full-scale plan for the integration of the acquired Business has been established, approved and launched with the assistance of international specialised advisors, expected to be completed within 15 months of change of control. A detailed IT integration plan was also completed, while the systems and data migration are planned to take place in September 2019. Full Operational Integration Governance has been set up involving specialised 14 work streams, Integration Management Office, Executive Integration Steering Committee and Integration Committee of the Board of Directors.

As far as integration execution is concerned, the first and second phases of branch closures was completed. As of end of January, a total 76 branches and 18 ATMs have been closed, seven branches have Branch-in-Branch functionality and two mobile branches have been launched. A third phase of branch closures will take place in 2019. Integration activities include: Signage of former CCB branches is being replaced with Hellenic Bank signage, transfer of mortgages and other collaterals relating to the acquired assets has been completed, data centers have been connected, consolidated regulatory reporting is being produced, Operations' departments have been centralized-amalgamated, etc..

STRATEGY DEPARTMENT

Strategy is responsible for, amongst others, the preparation of the Strategic Plan and the Operational Plan. The Department monitors and assists the implementation of the Strategic Plan targets and the Operational Plan initiatives of the various divisions and subsidiaries, according to the strategic guidelines set by the Board of Directors. Strategy is also responsible to carry out various strategic projects.

ECONOMIC RESEARCH DEPARTMENT

The Economic Research Department's main objective is to monitor and analyze domestic and international economic developments, to construct macroeconomic projections and brief the Bank's Board and Management and personnel, as well as its clients, on these developments. The Department is also responsible for authoring reports, articles and commentaries on various economic issues, as well as carrying out statistical analyses of economic data and statistics and presenting the results to the Bank's Board Management, staff and clients.

INFORMATION TECHNOLOGY

The mission of Technology Division is to support and implement the Bank's strategic goals.

IT Services aim to achieve the strategic objectives of the Group through the implementation of reliable, modern, flexible IT infrastructures and innovative technology solutions. IT Services are becoming a Business Solutions Provider, playing a leading role in the redesign of the Bank's business operations.

In 2018, after the acquisition of the former CCB, the Technology Division was strengthened with experienced and qualified staff, thus strengthening the human resources of the Division and contributing to the achievement of its objectives. At the same time, in September 2018, Hellenic Bank proceeded with the recruitment and appointment of a new Chief Technology Manager.

In one of the most important projects of Hellenic Bank, started in 2018 and expected to be completed in 2019 - the merger and consolidation of the data of the two Banking Organizations - Technology has taken a leading role. Through systematic effort, teamwork, engagement and consistency, experienced and skilled IT staff is contributing daily to the successful completion of this project. At the same time, through the progressive transformation program of the Information Technology services that was already in progress, the following projects have been implemented as part of Stages 4 and 5:

- **Middleware platform** - Utilization of the new infrastructure as a central point of integration between different systems [Payment System, Enterprise Content Management (BPM), Omnichannel platform (BackBase)].

- **Enterprise Data Warehouse and Reporting** - The daily automatic data transfer from the Banking System and Card Systems to EDW has been implemented, for data mining purposes in Data Analytics, report generation and analysis by business users, using the innovative SAS / Visual Analytics tool.
- **Customer Relationship Management (CRM)** - Utilization of this system by various departments, including the Customer Contact Center and Complaints Management, ensuring the customer's overall image (360°, KYC) and optimizing customer service.

With a view to enhancing IT governance, IT has implemented major components of its Service Management strategy which aims to transform IT capabilities, improve IT speed and agility, streamline IT operations and reduce IT costs. In particular, the following processes were automated:

- IT Demand Management
- System Development Life Cycle
- Change Management in IT systems

Regarding the Bank's Regulatory Obligations, the IT systems for the implementation of IFRS9 and compliance with the GDPR, FATCA / CRS and AnaCredit Directives have been adapted. Successful implementation of changes to the SWIFT system and to the new Trade Finance message structure, have been completed.

Other noteworthy projects completed in 2018, were the development of a new Floating-Rate Leasing product, the sale of Loan Portfolio to B2CAPITAL, the migration of SPVs assets to Hellenic Bank, the implementation of a new Multi-Purpose Loan product and the implementation of G4S Cash machines for Cash Deposits in Businesses. An upgrading of the Loan Automation system and its connection with the Credit Scoring System was also undertaken. A new product of advanced technology (Biometric Cards) has been applied at a pilot stage and the DCC-Dynamic Currency Conversion System has been implemented at Hellenic Bank ATMs.

Recognizing the criticality of security issues and the ongoing upward trend in cyber-attacks, the Technology Division has assessed the maturity level on implemented security controls and planned the upgrade of infrastructure and implementation of more controls to safeguard data and information systems, on the basis of a new architectural design that is under way.

HUMAN RESOURCE UNIT

In February 2018, the departure of 231 employees who chose to leave with the Voluntary Early Retirement Scheme announced in November 2017, was completed.

Regarding Hellenic Bank's agreement to acquire certain assets and liabilities of the former CCB, 1.100 employees were transferred to the Bank and placed in suitable positions according to their qualifications and experiences. With the completion of the Scheme and the incorporation of the former CCB transferred employees, the number of people employed by the Bank at the end of 2018 amounted to 2.840, of which 12 were employed at the Representative Offices abroad.

During the months of July and September a series of Town Hall meetings were held with all employees, where the structure and the new strategic approach of the Bank was thoroughly explained. The Bank, following negotiations with the representatives of the transferred employees (SEK, PEO, PASYDY), has signed an Agreement covering the alignment on some basic terms of employment for the transferred employees, such as the adoption of the working hours and the travelling allowance.

In July 2018, the 360° Feedback Scheme was launched, aiming to provide developmental, constructive feedback to Managers/ Supervisors, by subordinates and peers. The results were provided in an aggregated form to ensure confidentiality of the individual evaluation documents. In October 2018, the second phase of the re-organisation was implemented to enable the Bank to organize itself more effectively and achieve the strategic priorities, including the seamless integration of the acquired perimeter and business from former CCB.

Following the Culture & Engagement Survey which was conducted in October 2017, the results of the Survey as well as the Transformation Plan, were communicated to all employees, stating the related initiatives to be implemented for reinforcing the desired cultural attributes and for further enhancing engagement levels.

With regards to training, emphasis was given to topics on compliance, anti-money laundering, data protection, credit, as well as to the continuous development of interpersonal skills, in line with the vision and values of the Group.
In addition, great importance was given to a wide range of training areas for the new employees in the context of the integration process with former CCB, both technical in relation to the learning of the various systems and procedures, as well as on topics related to the common culture and teamwork for the way forward in the new era for the Group.

LEGAL SERVICES TEAM

The Legal Services Team is responsible for advising on any issues requiring legal analysis, in order to provide the best possible service and support to all the units of the Group. It is responsible for providing legal support to all the units of the Group to ensure the efficient and effective handling of a wide range of legal issues related, or directly connected, to the daily operations of the Group. Furthermore, the Legal Services Team provides advice and guidance for the protection of the Group's interests, to the extent possible, including legal issues relating to the Bank's general credit policy.

The Legal Services Team also provides legal advice and reviews the legal documentation relating to any transactions entered into by the Bank in order to meet the particular circumstances of each case and to safeguard the interests of the Bank. Besides the above, the Legal Services Team handles lawsuits against the Group as well as the cases against the Group by administrative authorities, in collaboration with the external counsel.

In 2018, the Legal Services Team played a catalytic role in the transaction for the acquisition of certain assets and liabilities from the former CCB (the Transaction). In particular, the Legal Services Team had an advisory role for the conclusion of relevant Transaction agreements and other related documents and for the completion of those agreements as well as for the handling of all legal matters relating to the Transaction, in collaboration with the external counsel advising the Bank on the Transaction.

Furthermore, the Legal Services Team provides support to all the departments of the Group for the smooth integration of the assets and liabilities of the former CCB, that were acquired by the Bank.

MARKETING SERVICES

The Marketing Services department manages the Bank's identity and corporate reputation, promoting its products and services while implementing and encouraging the value of Corporate Social Responsibility to employees and the community.

Promotion of Corporate Image
To communicate the Bank's corporate image, the department designed and rolled out a major campaign.
The campaign supported the idea that a bank should serve society's needs and its role is to facilitate these individual needs.
Through the message "Write your own story" which was accompanied by the Bank's new slogan "Your Strength", the campaign was extended to all media: TV, radio, outdoor, prints, digital and in-branch and internally.

Promotion of Products - Services
The Corporate Image campaign reinforced the subsequent three campaigns for the following loan products:

- Housing loan
- Car Hire Purchase scheme
- Business loan
- Loan scheme "ONE loan ONE bank".

Digital Marketing
Digital Marketing promotion emphasized its efforts on promoting the Hellenic Bank Mobile App's new features during the year through targeted in - branch campaigns and Social Media. The "Go mobile" campaign, aimed to decongest the Bank's branches and direct them towards the online services available for their daily transactions.

Corporate Social Responsibility Actions
Hellenic Bank's Corporate Social Responsibility Programme is focused on: Society, Education, Health and Research, as well as actions concerning the Environment, Arts and Culture. In 2018, Hellenic Bank participated in initiatives aiming to ease social problems, supporting families and other organisations active in standing by society's vulnerable groups.

Participation in Business Conferences
Recognising the importance and role of business seminars, the Bank was present in sponsoring important conferences in 2018, such as the: «14th Economist Cyprus Summit», «6th Cyprus Banking Forum», «4th International Funds Summit», «Capital Link Invest in Cyprus Forum New York», «Capital Link Shipping Forum 2018», «Marine Money Forum 2018» in Cyprus and Greece, «Posidonia 2018», «ShipCon 2018» and the inspirational speeches series «Life Changing Ideas».

Press Office – Communications Strategy
In 2018 top priority was given to communicating the acquisition of certain assets and liabilities of the former CCB and its smooth integration, both externally and internally. Within the framework of its responsibilities and obligations, the Office monitored current affairs in the news and informed the Bank's management and administration, taking action were necessary. It simultaneously ensured that the Bank's news and matters which concerned the public were transmitted and promoted in the best possible way. In this context, a series of press conferences were held, along with media liaising, conducting interviews to online and print media for article publication regarding the Bank's news and the financial sector in general.

ECONOMIC ENVIRONMENT

Cyprus has achieved an impressive turnaround following the 2013 economic crisis as the recovery continued strengthening for 16 consecutive quarters. The broad-based economic recovery gained considerable momentum in 2017, with real GDP increasing by 4,5%, accompanied by an additional 4,8% increase in 2016. Real GDP in Cyprus increased by 3,9% year-on-year in 2018.

The economy's robust performance can be attributed to private consumption and strong gross fixed capital formation, particularly for large construction and infrastructure projects as well as to a lesser extent to public consumption.
Private consumption benefitted from continued expanding employment across all sectors (which led to a marked decline

in unemployment, including long-term unemployment) and rising compensation per employee. Private consumption was also supported by the flourishing tourism sector with positive spillover effects in other sectors of the economy.

From a sectoral point of view, growth in 2018 was mainly attributed to the sectors: Hotels and Restaurants, Retail and Wholesale Trade, Construction, Manufacturing, Professional, Scientific and Technical Activities and Administrative and Support Service Activities. Negative growth rate was recorded by the sector Financial and Insurance Activities.
The course of the steady recovery path is reflected in the labor market, which tends to follow the recovery with a time lag. In 2017, the unemployment rate stood at 11,1% recording a decrease from 13% in the previous year. During the last quarter of 2018, the unemployment rate declined further to 7,6% of the labor force, recording a decrease compared to the same period of the previous year (10,1%). For the period January – December 2018, the inflation increased by 0,8% compared to the same period last year.

Public finances have been consolidated to a large extent to secure the sustainability of public debt. The fiscal balance recorded a surplus of €344 million (1,8% of GDP) for 2017 compared with a surplus of €59 million (0,3% of GDP in the corresponding period in 2016. The financial results for the period January – November 2018 present a general government surplus of €779,6 million (3,8% of GDP) compared to a surplus of €477,1 million in 2017 (2,4% of GDP).

The Cypriot banking sector downsized significantly during 2018 as a result of Hellenic Bank's acquisition of certain assets and liabilities of former CCB, the carve out of former CCBs non-performing portfolio and the recent sales of loan portfolios by Hellenic Bank and Bank of Cyprus. At the same time, the banking regulatory and supervisory framework have been significantly strengthened. Banks are making progress in restructuring their nonperforming loan portfolios. In December 2018, problem loans have been reduced by 60% to €11 billion from a peak of €27 billion, a €16 billion decrease, equivalent to around 80% of the country's GDP.

The housing market continued its adjustment during the third quarter of 2018 bringing the cumulative fall in prices since mid-2008 to approximately 30% (Central Bank of Cyprus's Residential Property Price Index (PPI)). In the second quarter of 2018, the PPI recorded a positive growth rate of 1,6%. According to data from the Department of Land and Surveys, property sales recorded a new increase during 2018. Specifically, sales contracts submitted increased to 9.242 versus 8.734 in the previous year, an annual increase of 6%. The economic recovery along with the improved domestic financial conditions have created and maintained an environment of improved confidence in the Cypriot banking industry. International credit rating agencies have recently provided higher credit ratings for Cyprus and the country's largest domestic banks. In September 2018, Standard and Poor's upgraded Cyprus' long-term credit rating "BBB-", placing the economy on an investment grade after six years. Subsequently, in October 2018, Fitch upgraded the rating for the Cyprus sovereign to "BBB-" from "BB+". In July 2018, Moody's Ratings upgraded the rating for Cyprus sovereign to "Ba2" from "Ba3", two notches below investment grade.

Taking advantage of the stable market backdrop and the recent rating upgrades, in February 2019, the Republic of Cyprus tapped the international capital markets, with an issue of a fifteen-year bond of €1 billion at a yield of 2,75%.

Cyprus' macroeconomic outlook is positive and is accompanied by a significant increase in real gross domestic product during 2018, robust employment growth and further improvement in key domestic indicators. Growth is expected to be supported by private consumption and investment and by an improving and robust labour market.

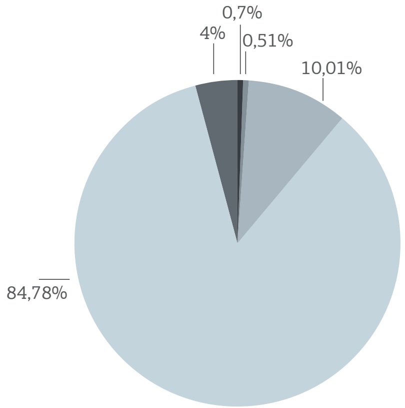
Despite the important steps taken towards restoring the positive economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high level of NPEs, high unemployment and the high private and public debt, which are however on a steady declining trend. The high level of NPEs, continue to pose significant risks to the stability of the domestic banking system and to the outlook for the economy.

From an exogenous perspective, the economic outlook may be negatively influenced due to the uncertainty surrounding the developments in Italy, a slower than expected growth in Europe, the uncertainty effects of Brexit and a weaker pound, including economic developments in Russia and fluctuations of the rouble against the euro. Also, increased geopolitical tensions in the Middle East and Eastern Mediterranean, could trigger adverse spillovers to economic confidence, tourism and consequently to the aggregate economic activity. At the same time, geopolitical tensions in neighbouring countries render Cyprus a safer tourist destination and could therefore counterbalance, to a significant extent, any potential reduction in tourist traffic from the UK. Additionally, developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored to assess potential prospects and risks as they are evolving.

Cyprus' macroeconomic outlook is positive, with GDP expected to continue growing. According to the baseline macroeconomic scenario, growth is expected to be 3,4% in 2019 and 3,2% in 2020. The pick-up in domestic demand is expected to be reflected in improved labor market conditions, with unemployment decreasing to 6,8% in 2019. Inflation in 2018 is expected to remain at relatively low levels, at around 0,8% in 2019.

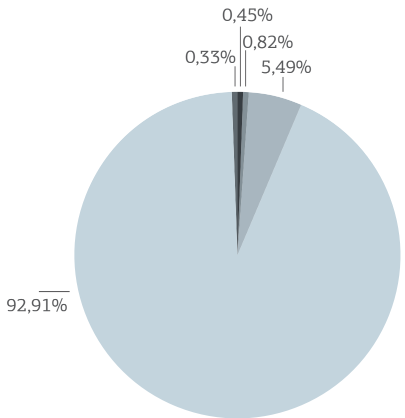
Shareholders List By Business Category - Totals
31/12/2018

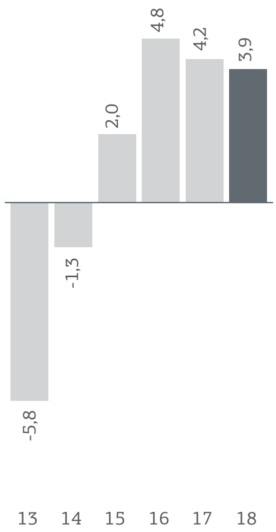
	Number of Shares	Percentage %	Number of Shareholders
Provident Funds	1.398.053	0,7	50
Staff	996.906	0,51	760
Individuals	19.721.150	10,01	23.243
Legal Entities	168.069.773	84,78	505
Church Institutions	7.617.060	4	31
Total Capital	**197.802.942**	**100%**	**24.589**



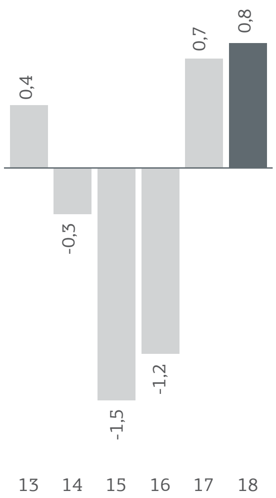
Shareholders List By Business Category - Totals
31/4/2019

	Number of Shares	Percentage %	Number of Shareholders
Provident Funds	3.371.368	0,82	51
Staff	1.345.457	0,33	758
Individuals	22.530.994	5,49	23.192
Legal Entities	383.332.272	92,91	497
Others	1.553.215	0,45	23
Total Capital	**412.133.306**	**100%**	**24.521**

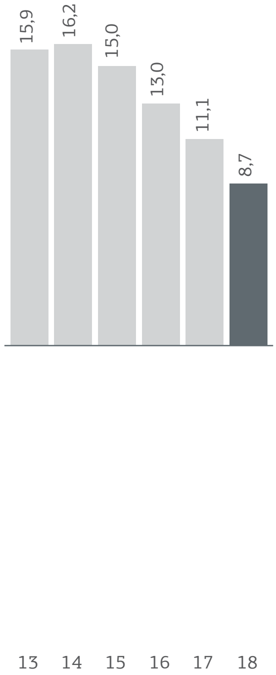




Rate of Growth, GDP
(In real terms,
percentage points)



Inflation
(Percentage Points)



Unemployment
(Percentage Points)

Income from tourism
(in millions, €)

management
report

HELLENIC BANK PUBLIC COMPANY LIMITED MANAGEMENT REPORT

INCORPORATION, ACTIVITIES AND BRANCH NETWORK

Hellenic Bank Public Company Limited (the "Bank") was incorporated in Cyprus and is a public company in accordance with the provisions of the Companies Law (Cap. 113), the Cyprus Stock Exchange Laws and Regulations and the Income Tax Laws. The Bank's registered office is located at 200, Corner of Limassol and Athalassa Avenues, 2025 Strovolos, P.O. Box 24747, 1394 Nicosia. The Bank is the holding company of Hellenic Bank Group (the "Group").

The principal activity of the Group during 2018 continued to be the provision of a wide range of banking and financial services, which include financial, investment and insurance services, custodian and factoring services as well as management and disposal of properties.

On 3 September 2018, the Bank completed the acquisition of certain assets and liabilities of the Cyprus Cooperative Bank Ltd (CCB), referred to as Cooperative Asset Management Company Ltd (the ex CCB) with effect from 1 September 2018 (the "Acquisition"). The Bank signed the business transfer agreement (BTA) to acquire substantially all the performing business of CCB, including the related business of lending, deposit taking and the provision of other banking services, to the extent comprised of the acquired assets (the "Assets") and the assumed liabilities (the "Assumed Liabilities"), as carried on by CCB (the "Business"). The Assets comprised a portfolio of primarily performing loans, Cyprus Government Bonds, cash and other current assets, while the Assumed Liabilities comprise customer deposits and other current liabilities.

Additional information on the acquired assets and liabilities is presented in Note 49.

The Bank provides banking and financial services through its branch network. As at 31 December 2018 the branch network included 129 branches, 22 cash offices and a mobile branch in Cyprus as well as representative offices in South Africa, Ukraine and Russia.

For further details and recent developments on the Group's structure refer to Note 24 and to Note 25 of the Financial Statements.

FINANCIAL RESULTS[1]

The Group's profit before taxation for the year ended 31 December 2018 amounted to €319,5 million (Bank: profit €316,6 million) and included the impact of the results of the Business for the four-month period along with a negative goodwill of €297,9 million as a result of the Acquisition. The negative goodwill represented the difference between the consideration paid of €74,2 million cash and the net fair value of the identifiable assets acquired and the liabilities assumed. For year ended 31 December 2017 the Group reported a loss of €48,5 million (Bank: loss €50,7 million).

Profit attributable to the Bank's shareholders for the year ended 31 December 2018 amounted to €319,3 million compared to a loss of €45,7 million for the year ended 31 December 2017.

Income Statement Analysis

Net interest income

The Group's net interest income for the year ended 31 December 2018 was €184,2 million (Bank: €184,1 million), up by 40% (Bank: increase of 41%) compared to €131,2 million (Bank: €131 million) for the year ended 31 December 2017. The main factor that contributed to the increase of net interest income was the impact of the Acquisition on interest income from loans and advances to customers and on interest income from debt securities.

The Group's net interest margin for the year ended 31 December 2018 amounted to 1,96% (31 December 2017: 2,03%).

Non-interest income

The Group's total non-interest income for the year ended 31 December 2018 amounted to €105 million (Bank: €95,7 million), recording an increase of 2% (Bank: increase 6%) compared to €103,3 million for the year ended 31 December 2017 (Bank: €90,5 million) mainly due to higher net gains on disposal and revaluation of foreign currencies and financial instruments partly offset by the lower other income.

The Group's net gains on disposal and revaluation of foreign currencies and financial instruments for the year ended 31 December 2018 amounted to €27,1 million (Bank: €27,3 million) and recorded an increase of 118% compared to €12,4 million (Bank: €12,5 million) for the year ended 31 December 2017, with the increase being mainly due to the gain of €18,3 million from the disposal of Cyprus Government Bonds (CGBs) during the first quarter of 2018.

Other income for the year ended 31 December 2018 amounted to €29,1 million (Bank: €16,4 million) and was down by 36% (Bank: 45%) compared to €45,6 million in 2017 (Bank: €30 million) mainly due to the net gain of €19 million from the disposal of the operations of the Arrears Management

1. The Group's Financial Statements and the Group's Financial Results presentation for the year ended 31 December 2018 are available on the Group's website www.hellenicbank.com (Investor Relations). The Financial Statements are also available at the Bank's registered office.

Division (AMD) of the Bank in June 2017 to APS Cyprus.
Net fee and commission income for the year ended 31 December 2018 was €48,8 million (Bank: €52 million) recording an increase of 8% (Bank: increase by 8%), compared to the year ended 31 December 2017 with the increase mainly due to the impact of the Acquisition.

Expenses
Group's total expenses for the year ended 31 December 2018 amounted to €202,5 million (Bank: €193,6 million), increased by 1% compared to €200,9 million (Bank: €189,3 million, increased by 2%), for the year ended 31 December 2017.

Staff costs
Group's staff costs for the year ended 31 December 2018 amounted to €87,6 million compared to €86,9 million the year ended 31 December 2017, recording an increase of 1% and accounted for 43% (2017: 43%) of the Group's total expenses. The Bank's staff costs for the year ended 31 December 2018 amounted to €82,5 million compared to €81,6 million the year ended 31 December 2017, recording an increase of 1% and accounting for 43% (2017: 43%) of the Bank's total expenses. The main drivers of the increase was the decrease in the number of staff during the first quarter of 2018, as a result of the Voluntary Early Exit Scheme (VEES) which was offset by the staff onboarded as part of the Acquisition from 1 September 2018. Analysis of staff costs is disclosed in Note 12 of the Financial Statements.

Administrative and other expenses
The Group's total administrative and other expenses for the year ended 31 December 2018 amounted to €103,7 million compared to €105,8 million for the year ended 31 December 2017 (down by 2%). The Bank's total administrative and other expenses for the year ended 31 December 2018 amounted to €100,1 million compared to €99,8 million for the year ended 31 December 2017. Administrative and other expenses included an amount of €10,2 million which relates to cost of advisory services in relation to the Acquisition. The integration cost incurred up to 31 December 2018 was approximately €13 million and the total integration cost is estimated to reach approximately €71 million by the end of the integration period. It should be noted that the integration cost is expensed or capitalised as it is incurred.

Analysis of total fees for statutory auditors is disclosed in Note 13 of the Financial Statements.

The Group's cost to income ratio for the year ended 31 December 2018 was 70% compared to 85,7% for the year ended 31 December 2017. The Bank's cost to income ratio for the year ended 31 December 2018 was 69,2% in comparison to 85,5% for 31 December 2017. For the year ended 31 December 2018 the ratio incorporates the high cost of advisory services as a result of the Acquisition and the integration as well as the results of the Business for 4 months. Whereas for the year ended 31 December 2017 the ratio incorporates the cost of the VEES.

Impairment losses and provisions to cover credit risk
The Group's total impairment losses and provisions to cover credit risk for the year ended 31 December 2018 amounted to €67,2 million (Bank: €67,4 million) compared to €82,9 million (Bank: €82,9 million) for the year ended 31 December 2017, recording a decrease of 19%.

Despite the improvement of the loan portfolio quality that led to a reversal of impairment losses in the first half of 2018, the Acquisition triggered an additional impairment charge in the third quarter of 2018 which related to the acquired portfolio.

As from 1 January 2018, the Bank has introduced a new impairment model which is based on expected credit losses (ECL) as per the requirements of IFRS 9. Under IFRS9 an asset acquired in a business combination would attract loss allowance at the first reporting date after it is recognised, even if that date is the date on which the business combination has taken place. This means that even though the fair value of the acquired portfolio had already incorporated expected credit losses at initial recognition, ECL still needed to be calculated on the book value resulting in an impairment charge in the third quarter of 2018 of approximately €54 million.

Furthermore, during the fourth quarter of 2018, the Bank proceeded with certain amendments to the parameters used in the provisioning models as part of the strategic plan.
The said amendments related to the liquidation period for collateralised defaulters from 4,6 to 5,2 years resulting to a charge of approximately €12,9 million.

The Group's cost of risk (annualised) for the year ended 31 December 2018 amounted to 0,8% (31 December 2017: 2,1%).

Under the terms of the Acquisition the Bank and CCB entered into an asset protection scheme agreement (APS) to protect €2,3 billion of the acquired loan portfolio (fair value as at the acquisition date) against future losses, with the Republic of Cyprus providing a direct guarantee to the Bank of ex-CCB's obligations under the APS Agreement. This provides for ex-CCB to pay to the Bank 90% of the losses that the Bank incurs in connection with defined pools of loans and receivables (the "APS Assets") which are part of the Assets. The Bank's losses in respect of the APS Assets include impairment losses, losses on sale and costs of recoveries. This resulted in an indemnification asset being recognised on the Bank's Statement of Financial Position in other assets and as at 31 December 2018 was €64,2 million. The Bank also recognised an indemnification asset in relation to certain off-balance sheet exposures amounting to €6,8 million. In accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Assumed Liabilities which include various off balance sheet exposures. The amortisation of the indemnification asset is included in the charge for impairment losses and provisions to cover credit risk.

The APS is a single contract providing credit protection in respect of parts of the acquired loan portfolio against future losses to the Bank. There is no change in the recognition and measurement of the covered assets as a result of the APS. The impairment on covered assets measured at amortised cost is assessed and charged in accordance with the Group's accounting policy with no adjustments to reflect the protection provided by the APS.

Detailed analysis is disclosed in Note 14 of the Financial Statements.

Share of results in associate net of taxation
The share of results in associate net of taxation, for the year ended 31 December 2018 amounted to €2,2 million profit compared to €0,8 million profit for a period of six months in 2017.

Taxation
The Group's taxation for the year ended 31 December 2018 amounted to a tax credit of €0,6 million (2017: €3,5 million tax credit) and included an amount of €0,9 million corporation tax charge and €1,5 million deferred tax (credit). A deferred tax of €1,7 million was debited in the Income Statement as a result of the reassessment of future taxable profits (taking into consideration the Acquisition) against which the existing taxable losses can be utilised. Furthermore, an amount of €3,6 million was credited in the Income Statement representing the movement of the temporary difference arising from the negative goodwill recognised on Acquisition. The Banks's taxation for the year ended 31 December 2018 amounted to a tax credit of €1,3 million (2017: €3,5 million tax credit) and included an amount of €0,3 million corporation tax charge and €1,6 million deferred tax (credit).

Statement of Financial Position Analysis

As at 31 December 2018, the Group's and the Bank's total assets amounted to €16,1 billion, and were significantly increased compared to €6,8 billion as at 31 December 2017, as a result of the Acquisition. The upward movement was largely reflected in investment assets and loans and advances to customers.

Deposits
The Group's and the Bank's customer deposits amounted to €14,7 billion as at 31 December 2018 (31 December 2017: €5,8 billion). They comprised of €13,7 billion deposits in Euro (31 December 2017: €4,7 billion) and €1,0 billion deposits in foreign currencies (31 December 2017: €1,1 billion), mostly in US Dollars. The increase in total customer deposits is primarily due to the absorption of CCB's deposits following the Acquisition. As a result, the Bank's deposits market share[2] as at 31 December 2018 has risen to 30,9% (31 December 2017: 11,9%).

Loans
The Group's and the Bank's gross loans as at 31 December 2018 amounted to €7.636 million, up by 88% compared to €4.055 million as at 31 December 2017. The performing loan portfolio increased by 173% while the non-performing loan portfolio increased by 14% compared to 31 December 2017. During 2018 exposures of €149 million were written off (2017: €147,8 million). The fair value of the loan portfolio absorbed as part of the Acquisition as at 1 September 2018 was €4.040 million and consisted of €3.607 million performing exposures and €433 million NPEs. As a result, the Bank's loan market share[2] as at 31 December 2018 increased to 19,5% (31 December 2017: 8,1%).

The net loans to deposits ratio stood at 42,7% as at 31 December 2018 (31 December 2017[3]: 47%).

Total new lending approved during 2018 reached €594,4 million (2017: €525,8 million). The Bank continued providing lending to creditworthy businesses and households while examining other growth opportunities.

Loan Portfolio Quality
As part of the Bank's "Deleveraging" strategy, on 6 June 2018 the Bank completed the disposal[4] of a non-performing loan portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd ("the Transaction"/ "the NPE trade agreement"). The gross contractual outstanding balance of the portfolio was €144 million comprising of 1.082 borrowers and 1.809 facilities (in each case as at 31 May 2018). As at 31 December 2017, the carrying amount of the said non-performing loan portfolio, was classified in other assets as assets held for sale.

To that extent during the first half of 2019 the Bank has embarked on a preparation phase to review the feasibility of different NPE reduction structures with the aim of identifying

2. Source: Central Bank of Cyprus (CBC) and Hellenic Bank.
3. Adjusted with IFRS 9 initial application impact.
4. See announcement dated 2 January 2018 (Agreement to sell a portfolio of non-performing loans) posted on the Group's website www.hellenicbank.com (Investor Relations).

the option that best meets the Bank's strategic objectives. The preparation phase will involve definition of the NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and in order to conclude on the best possible structure, the Bank will engage international advisors and is proceeding to engage in high level discussions via the signing of confidentiality agreements with various third parties that may be interested in pursuing a possible collaboration with the Bank. Such third parties include investment banks and financial investors.

The Group's and the Bank's NPEs[5] amounted to €2.474 million as at 31 December 2018 and compared to €2.162 million as at 31 December 2017, recorded an increase of 14%. The upward movement in the level of NPEs was triggered by the Acquisition, as it included an amount of €433 million of NPEs as at 1 September 2018, of which the majority is covered by the APS agreement. Terminated loans included in NPEs amounted to €1.523 million as at 31 December 2018. The Group's and the Bank's gross loans with forbearance measures as at 31 December 2018 amounted to €1.612 million (31 December 2017: €1.081 million).

The Group's and the Bank's NPEs to gross loans ratio as at 31 December 2018 was reduced to 32,4% (31 December 2017: 53,3%).

The Group's and the Bank's total accumulated impairment losses, amounted to €1.352 million as at 31 December 2018 (31 December 2017[3]: €1.326 million) and represented 17,7% of the total gross loans (31 December 2017[3]: 32,7%).

The NPEs provision coverage ratio stood at 54,6% as at 31 December 2018 (31 December 2017[3]: 61,3%). Taking into account tangible collaterals[6] the net NPEs collateral coverage ratio stood at 132,4% as at 31 December 2018.

Investment assets

The Group's and the Bank's carrying value of investment assets amounted to €9,3 billion as at 31 December 2018 (31 December 2017[3]: €3,7 billion) and represented 57,5% of the total assets of the Group (31 December 2017[3]: 52,8%). Investment assets comprise of cash and balances with Central Banks, placements with other banks, investments in debt securities, investments in shares and other securities and collective investment units and investment in associate.

Total investment assets increased by 151% compared to 31 December 2017, mostly due to the increase in debt securities as a result of the Acquisition.

The Group's and the Bank's cash and placements with other Banks and Central Banks amounted to €4,7 billion as at 31 December 2018 (31 December 2017[3]: €2,6 billion). Most foreign currency placements were with P-1 rated banks[7] .

The Group's investments in debt securities amounted to €4,5 billion as at 31 December 2018 (31 December 2017[3]: €1,0 billion) and represented 28,1% of total assets (31 December 2017[3]: 14,9%). The increase was mainly due to the CGBs obtained as a result of the Acquisition. The Group's investments in debt securities comprised mainly of CGBs and supranational organisations debt securities.

The CGBs[8] held by the Group and the Bank at 31 December 2018 amounted to €4.136 million (31 December 2017[3]: €678 million) of which €542 million will mature within 5 and 10 years, €2.435 million within 1 and 5 years and the remaining €1.159 million within a period of less than 1 year.

SHARE CAPITAL

At 31 December 2018, 198.474.712 fully paid ordinary shares were in issue, with a nominal value of €0,50 each (2017: 198.474.712 fully paid shares with a nominal value €0,50 each).

Details on the development of the share capital of the Bank are disclosed in Note 35 of the Financial Statements.

There are no restrictions on the transfer of the Bank's ordinary shares, other than the provisions of the Business of Credit Institutions Law of Cyprus which require the approval of the Central Bank of Cyprus (CBC) prior to acquiring shares of the Bank in excess of certain thresholds and the requirements of the EU Market Abuse Regulation.

The Bank's issued ordinary shares do not carry special control rights.

Increase of share capital

On 15 March 2019 the Bank announced the successful completion of the share capital increase. The raising of €150 million of shareholders' equity consists of €100 million through an underwritten Rights Issue and €50 million through a Private Placement. The new ordinary shares arising from the share capital increase, totaling 214.330.364, were listed on the CSE on 28 March 2019.

5. Gross carrying amount, including the contractual interest on impaired loans. The acquired NPEs were initially recognised at fair value and are subsequently measured at amortised cost.
6. Based on open market values (capped at client exposure).
7. Prime-1 short term rating by Moody's.
8. Republic of Cyprus is currently being rated as Ba2 by Moody's, BBB- by Fitch, BBB- by S&P.

MANAGEMENT REPORT (CONTINUED)

As a result of the share capital increase the Bank's capital position is now significantly strengthened following the Acquisition. Furthermore, it supports the Bank's business plan to further build its franchise and provides optionality for a faster resolution of non-performing exposures. It also facilitates improved access to the capital markets and enhances stakeholders' confidence in the Bank.

More details on the increase of share capital are disclosed in Note 52 of the Financial Statements.

LOAN CAPITAL

Non-convertible bonds 2018 were matured on 31 August 2018. Loan capital details are disclosed in Note 34 of the Financial Statements.

CAPITAL BASE AND ADEQUACY

The Group maintains capital adequacy ratios, well above the minimum required by the relevant regulatory authorities.

Under Pillar I (transitional basis), the Capital Adequacy Ratio of the Group as at 31 December 2018 was 18,53% (Bank: 18,46%) the Tier 1 Ratio was 18,53% (Bank: 18,46%) and the Common Equity Tier 1 Ratio (CET 1) was 15,82% (Bank: 15,76%).

The Group's risk weighted assets as at 31 December 2018 amounted to €4.800 million (Bank: €4.802 million).

According to the Regulation No. 2015/62 of the European Parliament and Council dated 10 October 2014, as at 31 December 2018 the Leverage Ratio for the Group was 5,42% (Bank: 5,40%).

Details of the capital management of the Group are disclosed in Note 51 of the Financial Statements.

ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARD

Effective from 1 January 2018, IFRS 9 "Financial Instruments" replaced the requirements set out by IAS39 "Financial Instruments: Recognition and Measurement" for recognition and measurement of both financial assets and liabilities. The Group established an IFRS 9 action plan in order to ensure a high quality implementation in compliance with the standard and additional regulatory guidance. The plan, which mainly involved the Finance, Risk functions and external consultants, included defining IFRS 9 methodology and accounting policy, development of Expected Credit Losses (ECL) models, identifying data and system requirements and establishing an appropriate operating model and governance framework.

Details of the IFRS 9 requirements and impact are disclosed in Note 3 and Note 4 of the Financial Statements.

DIVIDEND

The Bank is currently under a regulatory dividend distribution prohibition and therefore the Board of Directors of the Bank does not propose the payment of a dividend for the year ended 31 December 2018 at the shareholders' Annual General Meeting. No dividend was paid or proposed for the year ended 31 December 2017.

INTEGRATION UPDATE

As from 1 August 2018, the Board of Directors of the Bank established a temporary/ad hoc Integration Committee of the Board to ensure the effective oversight and input of the Board of Directors in smoothly implementing the integration strategy of the acquired business of certain assets and liabilities of the CCB. It is anticipated that the Integration Committee will be operational for a period of up to 18 months.

A full scale plan for the integration of the acquired Business has been launched with the assistance of international specialised advisors. Expected to be completed within 15 months of change of control. A detailed IT integration plan was also completed. The systems and data migration is planned to take place in the third quarter of 2019. Fully Operational Integration Governance has been set up involving specialised work streams, Integration Management Office, Executive Integration Steering Committee and Integration Committee of the Board.

As far as the execution is concerned, this is in line with the full scale plan.

STRATEGIC TARGETS AND OUTLOOK

In delivering its strategic plans, the Bank remains committed to being a strong bank that meets the expectations of the investors and shareholders as well as those of the economy and society. During the course of the financial crisis of 2013, the Bank has retained its reputation for stability and confidence and is now focusing on strengthening and improving its market position.

The Bank's strategy focuses on two aspects: deleveraging the NPA portfolio and focused growth through strengthening of customer relationships and new lending. The Bank intends to continue to carry out its role in supporting the local economy while safeguarding its shareholders' value through prudent policies and in line with the target risk profile. At the same time, the Bank is continuing repositioning its International Banking strategy reflecting the changing regulatory environment with specific focus on anti- money laundering issues. The Bank's strategy also includes advancements in technology, digital transformation and enhancement of the customer service as well as simplification of procedures and processes.

As part of the Bank's strategy to significantly improve its loan portfolio quality, the Bank disposed the operations of the Arrears Management Division, APS Debt Servicing Cyprus Ltd ("APS Cyprus") which commenced operations in July 2017. Through the creation of the first debt servicing platform in the Cypriot market, the Bank is able to effectively tackle its NPEs in an accelerated way and with higher recoveries, leveraging on the know-how, proven expertise and technical experience of APS Holding. Moreover, the Bank remains focused to accelerate the de-risking of its non-performing exposures through portfolio disposals; hence, in June 2018 the Bank has completed its first sale of a non-performing loan portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd, a wholly-owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange.

Aiming to facilitate the growth strategy, the Bank completed the acquisition of certain assets and liabilities of CCB in September 2018. The acquisition is expected to accelerate the Bank's strategy of growth and strengthen its banking franchise across Cyprus with an enlarged and diversified customer base and is expected to improve the financial profile of the Bank. The Bank has a significant exposure to CGB and plans to maintain the bonds until maturity. The Bank's capital position, following the execution of the capital plan, is sufficient to satisfy the regulatory capital requirements for such exposure to CGB.

Following the Acquisition, the Bank aims to continue its pivotal role in the recovery of the real economy supporting creditworthy Cypriot businesses and households with a comprehensive range of quality banking services. The Acquisition perimeter is complementary to the Bank's existing business model, diversifying its loan portfolio from its current focus on corporate clients to establish an enlarged retail presence. The Bank expects to achieve significant synergies following the Acquisition, reflecting the complementary characteristics of the combined businesses.

The Bank has maintained sufficient liquidity following the Acquisition allowing the exploitation of opportunities in various sectors of the economy and maintaining its focus on organic growth. Exploiting the benefits from the Acquisition, the focus of new loans will continue to be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and commercial activities, manufacturing and tourism. At the same time, loans to private sector are geared toward mortgages, small loans to new customers and supporting current clients who are deemed viable.

Through the Acquisition the Bank continues the implementation of its strategy. At the same time, the operating environment remains challenging and the Bank aims to remain vigilant of developments and to turn these challenges into opportunities.

RISK MANAGEMENT

The Group is exposed to a variety of risks, the most important of which are described and analysed in Note 51 of the Financial Statements. The management and monitoring of risks is centralised under a uniform management, which covers the entire range of the Group's operations.

AGREEMENTS WITH MEMBERS OF THE BOARD OF DIRECTORS OR THE STAFF OF THE BANK

Details on agreements with members of the Board of Directors are described in the 2018 Remuneration Policy Report.

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Code published by the Cyprus Stock Exchange (fifth revised edition – January 2019) has been fully adopted by the Bank's Board of Directors.

The Board of Directors recognises the importance of implementing sound Corporate Governance based on the Code in combination with the mandate and practices followed by the various Committees of the Board of Directors in order to achieve the target of maximising the shareholders' investment.

The Corporate Governance Code is publicly available on the Cyprus Stock Exchange (CSE) website www.cse.com.cy.

Information on Members of the Board of Directors retiring and being eligible for re-election, as well as on the composition and operation of the Bank's Board of Directors and its committees are set out in section B of the Report on Corporate Governance.

Any amendments to the Articles of Association of the Bank are only valid if approved by a Special Resolution at a General Meeting of the shareholders.

Details of restrictions in voting rights and special control rights in relation to the shares of the Bank are set out in Note 35.

The Board of Directors may issue share capital if there is sufficient authorised capital which has not been issued and as

MANAGEMENT REPORT (CONTINUED)

long as the new shares to be issued are offered first to the existing shareholders, pro-rata to their percentage holding in the Bank's share capital. In the event that a share capital increase requires an increase in the authorised share capital or if the new shares will not be offered to existing shareholders, the approval of the shareholders at a General Meeting must be obtained. The Board of Directors may also propose to a General Meeting of the shareholders a share buyback scheme.

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

Shareholders holding more than 5% of the share capital of the Bank are disclosed in Note 42 of the Financial Statements.

ESTIA SCHEME

The Government of the Republic of Cyprus in July 2018 announced a scheme named "Estia" (Scheme) aiming to achieve a socially acceptable and financially viable restructuring solutions for vulnerable borrowers and protect their primary residences. This is based on specific eligibility criteria, principles, terms and conditions. As a result, eligible borrowers have the opportunity to cooperate with the banks and the Cypriot Authorities to reach an amicable restructuring solution with a view to secure their primary residence.

The "Estia" is a one time Scheme that will be applicable for a limited period of time and offers the opportunity to substantially reduce the debt burden of the affected households and to enhance the long term repayment ability of loans which are secured by primary residence.

According to the provisions of the Scheme, eligible borrowers will receive a subsidy from the Government of the Republic of Cyprus, for restructured loans that are secured by eligible primary residence, provided that their contractual obligations are fully met. More specifically, at the end of each year the Government will pay directly to banks a subsidy which is the equivalent of one third (1/3) of the total monthly loan installments of the restructured loans that are secured by primary residence. The subsidy will be granted under the precondition that two thirds (2/3) of the total monthly loan installments are successfully paid by the borrowers to the banks. The Scheme is applicable for non-performing credit facilities, regardless of the denominated currency, that fulfill specific requirements, terms and conditions and socioeconomic criteria as at 30 September 2017, up to the actual point in time of submission of the ESTIA applications.

A number of actions are in progress within the Bank, according to the action plan set for the implementation of the Scheme and complies with the provisions of the Memorandum of Understanding.

More details are disclosed in Note 19 of the Financial Statements.

ENVIRONMENTAL ISSUES

The Bank, in the context of its wider environmental culture and actions, plays a pioneering role in the field of energy management. It has established an Energy Management Policy six years ago, through which it has managed to reduce (2018 v. 2012) its energy consumption by almost 30%, as a result its CO_2 emissions by over 20% and its electricity cost by almost 50%.

From the beginning of 2015 the Bank has been certified with the international standard ISO 50001 Energy Management System, being the first organisation in Cyprus to achieve this certification. The ISO 50001 Energy Management System is implemented across the entire Hellenic Bank Group and its success depends to a great extent on the awareness, contribution and involvement of all staff. It is applicable to all services and buildings, irrespectively of size or sector of activity, providing a systematic approach towards the continuous improvement of energy performance, including energy efficiency, use and consumption.

The continued implementation of rational and prudent energy management provides significant benefits, such as reducing energy consumption and cost, as well as promoting an environment-friendly culture, something which makes our Group stand out.

In addition, the Bank, in cooperation with the environmental organisation Cymepa has achieved certification of a number of its buildings with Green Key (Head Office building) and Green Offices (35 branches and offices). The Green Offices program is again a pioneering activity of Hellenic Bank Group in cooperation with Cymepa, as it has been for the first time implemented in Cyprus. Through this scheme environmental targets and action plans are activated in the buildings and branches participating.

By the end of 2019, the Bank will form a working group on Climate Change and start work towards identifying the actions the Bank should take in response to climate change.

EMPLOYEE MATTERS

Following the Bank's agreement to acquire certain assets and liabilities of the Cyprus Cooperative Bank, 1.100 employees were transferred to the Bank and placed in positions according to qualifications and experiences. Under TUPE (transfer of undertakings (Protection of Employment) Regulations), following the transfer, the Bank effectively takes over with regard to the employment relationship with the

Transferred Employees. In particular, in terms of collective agreements, the Bank is required to observe the terms of any collective agreement until the date of the termination, or expiry of the collective agreement, or until the entry into force, or application of another collective agreement, in each case for a minimum of one year.

The Bank following negotiations with representatives of the transferred employees (SEK, PEO, PASYDY) has signed an Agreement covering the alignment on basic terms of employment for the onboarded employees, such as the adoption of the working hours of the Bank, of the travelling allowance, of the Disciplinary Code and the abolishment of the cashier allowance.

The Bank is in the process of negotiation with the employees' representatives for the renewal of the Collective Agreements which have expired on 31 December 2018.

The 360º Feedback Scheme was launched in July 2018, aiming to provide developmental, constructive feedback to Managers/ Supervisors, by subordinates and peers. Following the completion of the Feedback Documents, results were provided in an aggregated form.

In October 2018, the second phase of the re-organisation was implemented, following the first phase that took place in November 2017. The aim was to enable the Bank to organize itself more effectively and achieve the strategic priorities, including the seamless integration of the acquired perimeter and business from CCB.

Following the Culture & Engagement Survey that was conducted in October 2017, HR communicated to all employees the results of the Survey as well as the Transformation Plan stating the
related initiatives to be implemented, for reinforcing the desired cultural attributes and for further enhancing engagement levels. The Culture Transformation Plan will be revisited in 2019 to include related Integration initiatives.

CORPORATE SOCIAL RESPONSIBILITY REPORT (CSR)

In line with the relevant legislation, the Bank is in the process of preparing a CSR report, which is required to be submitted to the Registrar of Companies by 30 June 2019.

PREPARATION OF PERIODIC REPORTS

The Group has in place an effective system of internal controls, the adequacy of which is evaluated at least annually by the Board of Directors and in more frequent intervals by the Board's Audit Committee, in respect of financial and operational systems as well as for compliance with any risk management regulations that may arise. The adequacy of the system of internal controls secures the validity of financial data and compliance with relevant legislation and aims to ensure the management of risks while providing reasonable assurance that no loss will incur.
The Group's internal audit and risk management systems incorporate effective procedures aiming at the identification and prevention of errors, omissions or fraud that could result in material misstatements during the preparation of Financial Statements and relevant disclosures which are included in the periodic reporting provided by the Group based on Part II of the Transparency Requirements Law (Securities admitted to trading on a Regulated Market) Laws of 2007 up to 2017.

SYSTEM OF INTERNAL CONTROL

The Board of Directors has ensured that the Bank maintained an effective System of Internal Control in 2018. The adequacy and effectiveness of the System of Internal Control is reviewed by the Board at least annually. The review covers all systems of internal control, including financial and operational systems, as well as compliance systems and systems for the management of risks that threaten the attainment of the Group's objectives.

In order to maintain an effective System of Internal Control, the relevant procedures have been designed for maintaining proper accounting records and for ensuring the accuracy, completeness and validity of the information provided to the Group's stakeholders. These procedures can only provide reasonable but not absolute assurance against material misstatement, errors, losses, fraud or breaches of laws and regulations.

The Audit Committee meets before the announcement of the results, to monitor the integrity, accuracy and reliability of the Group's quarterly and annual financial reporting process and Financial Statements as well as any formal announcements relating to the Group's financial performance, to assess the adequacy of the provisions in line with accounting policies and standards and to monitor the establishment of accounting policies and practices, paying particular attention to
(i) changes to critical accounting policies and practices,
(ii) decisions requiring a significant element of judgement and
(iii) unusual transactions and how these are disclosed.
It then proceeds with the relevant suggestions to the Board of Directors through a detailed memo.

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in Note 52 of the Financial Statements.

BOARD OF DIRECTORS

The Members of the Board of Directors as at 31 December 2018 were the following:

MANAGEMENT REPORT (CONTINUED)

Youssef A. Nasr
Non-Executive Chairman

Marinos S. Yannopoulos
Non-Executive Vice Chairman

Dr Evripides A. Polykarpou
Non-Executive Member of the Board

Irena A. Georgiadou
Non-Executive Member of the Board

Marianna Pantelidou Neophytou
Non-Executive Member of the Board

David Whalen Bonanno
Non-Executive Member of the Board

Christodoulos A. Hadjistavris
Non-Executive Member of the Board

Andreas Christofides
Non-Executive Member of the Board

Andrew Charles Wynn
Non-Executive Member of the Board

Stephen John Albutt
Non-Executive Member of the Board

Demetrios Efstathiou
Non-Executive Member of the Board

Ioannis A. Matsis
Executive Member of the Board

Lars Kramer
Executive Member of the Board

During 2018 the changes in the Board of Directors of the Bank were as follows:

Mr Youssef A. Nasr was elected as an Independent Non-Executive Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 11 July 2018 and at the Board meeting that followed, he was elected Chairman of the Board of Directors of the Bank. The Senior Independent Director, Dr Evripides A. Polykarpou, had been fulfilling the duties of the Chairman until that day.

Mr Lambros Papadopoulos withdrew his candidacy for re-election as Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 11 July 2018, for personal reasons and to focus on other executive and non-executive duties.

In accordance with the Company's Articles of Association, Mr. Stephen John Albutt, Mr Ioannis A. Matsis, Mrs Marianna Pantelidou Neophytou and Dr Evripides A. Polykarpou will retire, and being eligible, will offer themselves for re-election. The vacancies so created will be filled by election.

Reference to Directors' emoluments, fees and compensation is made in Note 41 of the Financial Statements.

DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

The interest in the share capital of the Bank held by Members of the Board of Directors is disclosed in Note 40 of the Financial Statements.

INDEPENDENT AUDITORS

The independent auditors KPMG Limited have expressed their willingness to continue in office as the Bank's auditors. A resolution authorising the Board of Directors to re-appoint and fix their remuneration will be proposed at the Annual General Meeting.

On behalf of the Board of Directors,

Youssef A. Nasr
Non-Executive Chairman

Nicosia, 24 April 2019

report of the board of directors on corporate governance for the year 2018

REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE FOR THE YEAR 2018

INTRODUCTION

The Board of Directors of Hellenic Bank Public Company Limited ("the Company" or "the Bank") fully adopted the Code of Corporate Governance, which was published by the Cyprus Stock Exchange (5th revised edition – January 2019), hereinafter referred to as "the Code". In compliance with the provisions included in the Code's introduction, the Board of Directors of the Company ("the Board" or "BOD") incorporates the present Report on Corporate Governance in the Company's 2018 Annual Report.

PART A

The Company states that the full implementation of the Code's principles constitutes the Company's policy and that it had already taken the initiative of applying many of these principles well before the establishment of the Code. The Board believes that good corporate governance, based on the Code, in conjunction with the terms of reference and the practices followed by the various Board Committees, constitutes a fundamental factor in achieving the corporate goal of maximising shareholder value. The Board acknowledges that there is an on-going process of formulating principles of corporate governance based on both international and local conditions. As such, the Board continually follows a policy of reviewing and readjusting the various aspects of corporate governance accordingly.

PART B

The Company confirms that it has complied with the provisions of the Code.

The Company applies the provisions of the Code throughout the Group of Companies to which it belongs i.e. and to its subsidiary companies through Committees of the Company or the subsidiary companies. As at the date of this Report all significant subsidiary companies maintain an Audit Committee and a Risk Management Committee as shown in paragraph (13) (Board Committees) below.

In light of the above, the following confirmations and reports are made:

Board of Directors

The Company is governed and controlled by the Board of Directors, which operates on the basis of the Code, the relevant Companies, Stock Exchange and Business of Credit Institutions Laws and the Company's Articles of Association.

The Board of Directors sets the strategic aims of the group of Hellenic Bank ("the Group") and ensures that the necessary financial and human resources are in place to meet the strategic and operational objectives of the Group.

The Board of Directors has the overall responsibility for:

- Setting and overseeing the values and standards of the Group.
- Setting and overseeing the business model of the Group.
- Maintaining effective systems and controls to ensure effective operation of the Group and compliance with applicable laws and regulations.
- Setting the framework and policy for effective governance and oversight of the Group.
- Monitoring business performance against the strategic objectives, risk appetite and expected standards.

The BoD is responsible for ensuring that Board and Committees composition and organization are appropriate.

The Bank's Corporate Governance Framework includes a list of matters reserved for the Board. Such matters include, inter alia, setting of the Group's overall strategy and targets, approval of the annual budget, approval of capital and funding plans, decisions relating to the capital structure of the Company, decisions on important matters and material transactions, transactions with Board Members and Senior Executives or major shareholders, appointment or removal of the Chief Executive Officer, matters concerning the composition and organization of the Board and Board Committees, governance matters, etc.

On 31st December 2018, the Board was composed of eleven non-Executive Directors and two Executive Directors, being sufficiently diversified in terms of age, gender, educational and professional background in order to reflect a sufficiently wide range of experiences and facilitate the extraction of a variety of independent opinions and critical challenges. The Board's composition as at 31st December 2018, as well as the changes in the composition and distribution of responsibilities of the Board throughout the year and up to the date of the present Report, appear in the Directors' Report for the year 2018.

During 2018, the Board of Directors held fifty meetings, the majority of which were special meetings (thirty one) due to the acquisition of certain assets and liabilities from the ex Cyprus Cooperative Bank Limited, completed on 3rd September 2018. Two of the abovementioned Board meetings were held without the presence of the Executive Directors. In accordance with the provisions of the Directive to Credit Institutions on Governance and Management Arrangements in Credit Institutions of 2014 of the Central Bank of Cyprus ("the Governance Directive"), one of the abovementioned meetings was held without the presence of the former Chairwoman (Chairperson of the Board until 24th May 2017) and without the presence of the Executive Directors, was chaired by the Senior Independent Director and its purpose was to assess the performance of the former Chairwoman of the Board of Directors.

Another one of the abovementioned meetings was held without the presence of the previous Chairman (fulfilling the duties of the Chairperson of the Board from 24th May 2017 to 11th July 2018) and without the presence of the Executive Directors, was chaired by an independent Director and its purpose was to assess the performance of the previous Chairman of the Board of Directors. The overall attendance record at the 2018 Board meetings, scheduled and special, was 94%.

It is ensured that all Members of the Board are duly informed in writing of forthcoming Board meetings and all necessary documentation related to the meeting is provided, so that they have sufficient time to review it. The participation of the Board Members in other boards is such, so as, to allow them to devote the necessary time and attention to their duties as Members of the Board of the Company.

There is a clear division of responsibilities between the Chairperson of the Board of Directors and the Chief Executive Officer.

The Chairperson of the Board of Directors leads and manages the Board of Directors in a manner such as to ensure that it discharges its legal and regulatory responsibilities fully and effectively. The primary role of the Chairperson of the Board of Directors is to ensure that the Board of Directors is organized and operates properly and efficiently, to promote the required team spirit to the Board of Directors, to promote high standards of corporate governance and probity and to ensure that appropriate management information is provided to the Board to enable it to discharge its management and supervisory roles.

The Chief Executive Officer, under the delegated authority from the Board of Directors, has the responsibility for the day-to-day running of the Group, leads and directs the implementation of the Group strategy, which is determined by the Board of Directors and ensures that the Group's activities are executed in line with the performance targets set by the Board of Directors, the Laws, Regulations and Group Policies. The Chief Executive Officer of the Group is accountable to the Board of Directors.

The Board of Directors appoints an Independent Director as the Senior Independent Director. The Senior Independent Director is available to shareholders if they have concerns, which have failed to be resolved through normal communication channels. In addition, the Senior Independent Director, at least annually, chairs a meeting with the Non-Executive Directors without the Chairperson present, in order to appraise the performance of the Chairperson.

The Company Secretary and the Executive Officer ensuring compliance with the Code of Corporate Governance provide information and advisory services to the Members of the Board related to board procedures and the Code.

(1) Independent Non-Executive Directors in 2018

Based on the provisions of the Code and for the purposes of this Report, the following are the Independent Non- Executive Directors in 2018:

- Youssef A. Nasr, Chairperson (elected on 11th July 2018)
- Dr Evripides A. Polykarpou, Senior Independent Director (fulfilling the duties of the Chairperson of the Board from 24th May 2017 until 11th July 2018)
- Irena A. Georgiadou
- Lambros Papadopoulos (until 11th July 2018)*
- Marianna Pantelidou Neophytou**
- David Whalen Bonanno**
- Christodoulos A. Hadjistavris**
- Andreas Christofides
- Andrew Charles Wynn
- Stephen John Albutt
- Demetrios Efstathiou.

A relevant "Confirmation of Independence" based on the minimum independence criteria in accordance with provision A.2.3. of the Code is signed by each of the Independent Non-Executive Directors and is submitted to the Cyprus Stock Exchange together with the present Report on Corporate Governance.

(2) Non-Independent Non-Executive Directors in 2018

- Marinos S. Yannopoulos, Vice Chairman.

Upon the appointment of Mr Marinos S. Yannopoulos as Chief Executive Officer on 9 September 2014, a position which he held until 8th January 2015, the independence criterion A.2.3.(d) – employee of the Company within the last five years - of the Code was not fulfilled and therefore, from 9th September 2014, Mr Marinos S. Yannopoulos is no longer considered to hold the position of Independent Non-Executive Director of the Company.

(3) Executive Directors in 2018

- Ioannis A. Matsis, Executive Director / Chief Executive Officer
- Lars Kramer, Executive Director / Chief Financial Officer.

At least 50% of the Board of Directors (excluding the Chairperson) consists of Independent Non-Executive Directors.

(4) Chief Executive Officer

- Ioannis A. Matsis.

Notes:

* Mr Lambros Papadopoulos withdrew his candidacy for re-election as Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 11th July 2018, for personal reasons and to focus on other executive and non-executive duties.

** Under the independence criteria listed in the Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions of 2014 of the Central Bank of Cyprus, which differ from those of the Corporate Governance Code, Mrs Marianna Pantelidou Neophytou, Mr Christodoulos A. Hadjistavris and Mr David Whalen Bonanno are not independent.

(5) Application of best possible practices of Corporate and Internal Governance in the Company

Directors' Induction and Ongoing Development

All newly appointed Board Members receive an induction and training. They receive an induction information pack, participate in an induction programme and have the opportunity to meet with senior officers of the Bank, be briefed by them and participate in introductory presentations.

In addition, the Chairperson of the Board, with the assistance of the Company Secretary, must ensure that Members of the Board possess at all times sufficient knowledge and skills to perform their duties and that their education and development needs are addressed on a continuing basis. For this purpose, at the beginning of each year, a Board annual training schedule is prepared, which includes specialised programmes covering technical matters and matters for the development of business and personal skills. In addition, depending on the responsibilities and personal training needs of each Board Member, they are given the opportunity to participate in specialised induction programmes and seminars that relate to their responsibilities as Members of Board Committees.

Evaluation of Performance of the Board of Directors

Pursuant to the provisions of the Governance Directive and best practices on Corporate Governance, the Board performs an assessment of the Board of Directors and its Committees at least on an annual basis.

In addition, in accordance with the Governance Directive, the Bank must assign at least every three years the review and evaluation of the composition, efficiency and effectiveness of the Board and its Committees to an independent external consultant. Both the internal and external evaluations are submitted to the Central Bank of Cyprus.

The Bank has established policies and procedures that govern the evaluation of the performance of the Board and its Committees.

In the first quarter of 2019 the Board of Directors performed the annual evaluation of the Board and its Committees for 2018.

The first external evaluation by external advisors was conducted in June 2015. An external evaluation was also conducted by external advisors in the first quarter of 2018.

The Board's Chairperson ensures that a clear improvement plan is put in place, which includes clear actions to address the development areas and it is regularly monitored by the Board.

The results of each annual self-assessment and the progress on the implementation of the actions in the improvement plan will constitute the basis for a review in the following year.

Corporate Governance Framework

The Bank has established a Corporate Governance Framework purporting to provide a comprehensive document, which clearly sets out the Company's corporate governance arrangements.

The Corporate Governance Framework provides information on the structures, responsibilities and processes established that ensure proper and effective management and oversight of the Company's affairs.

The Company's corporate governance policies purport to ensure the independence of the Board of Directors and its ability to effectively supervise Management's orderly operation of the Company. The policies are reviewed annually and in accordance with changing regulation and emerging best practice information.

The Corporate Governance Framework is reviewed at least annually.

Approval, Revision and Review of Policies, Frameworks and Charters

During 2018 and 2019 until the date of this Report, taking into account the provisions of the Governance Directive and within the framework of the continuous efforts of the Company to improve its Corporate Governance, the Board has approved or revised or reviewed, inter alia, the following Policies and/or Frameworks and/or Charters:

- Corporate Governance Framework
- Self-Assessment and External Evaluation (Board's Chairperson, Board Committees and Board Members) Policy
- Board Nomination, Evaluation, Selection, Succession and Ongoing Assessment Policy
- Remuneration Policy

- Code of Business Conduct and Ethics
- Anti-Bribery & Corruption Policy
- Anti-Money Laundering, Counter-Terrorism Financing & Economic Sanctions Policy
- Conflicts of Interest Policy
- Whistleblowing Policy
- Market Abuse Policy
- Compliance Charter and Framework
- Compliance Policy
- Internal Audit Charter
- Data Protection Policy
- Risk Management Charter
- Risk Appetite Framework
- Risk Appetite Statement
- Liquidity and Funding Risk Management Framework
- Market Risk Management Framework
- Enterprise Risk Management Framework
- Credit Risk Management Framework
- Operational Risk Management Framework
- Credit Policy – various Chapters
- Information Security Charter
- Information Security Policy
- Vendor and Outsourcing Management Policy
- Customer Acceptance Policy
- Investment Framework
- Products & Services Management Policy
- Product Governance Policy for Investment Products
- Various policies related to the MiFID II Directive / legislation
- Data Governance Policy
- Write Off: Debt Forgiveness and Write Down Policy

The Chairperson of the Board of Directors, the Chief Executive Officer, the Company Secretary and the Executive Officer ensuring compliance with the Corporate Governance Code confirm that compliance with the relevant laws, regulations and directives, the implementation of best practices of corporate governance within the Company and the application of an adequate and transparent framework of internal governance are amongst the priorities of the Bank.

Percentages of Major Shareholders as at 31 December 2018 and 19 April 2019

The percentage of the Shareholders holding more than five per cent of the Company's issued share capital as at 31 December 2018 were as follows:

THIRD POINT HELLENIC RECOVERY FUND LP	26,20%
WARGAMING GROUP LIMITED	24,92%
DEMETRA INVESTMENT PUBLIC LTD	10,05%
BANK OF CYPRUS PUBLIC CO LTD – OMNIBUS ACCOUNT (NR) (Concerned the participation of the EBRD)	5,37%

There followed a successful share capital increase through (i) a Rights Issue of up to €100.031.254,40 and (ii) a Private Placement of €50.000.000,40, approved by the Extraordinary General Meeting of the Shareholders held on 22nd August 2018.

Hence, the percentage of the Shareholders holding more than five per cent of the Company's issued share capital as at 19 April 2019 were as follows:

WARGAMING GROUP LIMITED	20,61%
DEMETRA INVESTMENT PUBLIC LTD	18,42%
POPPY SARL	17,30%
THIRD POINT HELLENIC RECOVERY FUND LP	12,59%
FUNDS MANAGED BY 7Q FINANCIAL SERVICES LTD	8,90%

(6) Remuneration Policy Report

The Remuneration Policy Report was prepared by the Board of Directors following a proposal by the Remuneration Committee in accordance with Appendix 1 of the Code. It is presented after the present Board of Directors' Report on Corporate Governance. The Remuneration Policy Report will be presented to the Annual General Meeting of the Shareholders for approval.

Information on the remuneration / fees of the Members of the Board of Directors and the Executive Directors for the year 2018 is disclosed in the notes to the Accounts contained in this Annual Report (Note 41) as well as in the Remuneration Policy Report itself.

(7) Going Concern

The Board of Directors states that the Company intends to continue to operate on a going concern basis for the next twelve months.

(8) System of Internal Control

The Board of Directors has ensured that the Bank maintained an effective System of Internal Control in 2018. The adequacy and effectiveness of the System of Internal Control is reviewed by the Board at least annually. The review covers all systems of internal control, including financial and operational systems, as well as compliance systems and systems for the management of risks that threaten the attainment of the Group's objectives.

To meet this requirement, procedures have been designed for safeguarding the Group's assets for maintaining proper accounting records and for ensuring the accuracy, completeness and validity of the information provided to the Group's stakeholders. These procedures can only provide reasonable but not absolute assurance against material misstatement, errors, losses, fraud or breaches of laws and regulations.

In this context, all Group operational management units are suitably staffed and responsible for the introduction and operation of appropriate control systems according to their respective business and responsibilities. Within this framework, the above-mentioned management units:

- Operate on the basis of a specific organisational structure and allocation of responsibilities;
- Prepare and monitor the implementation of the strategic and business plans and annual budgets;
- Follow written procedures, receive and disseminate information and advice through circulars and training programmes;
- Adopt a policy of adequate segregation of duties in order to avoid potential conflict(s) of interest wherever this is deemed necessary;
- Apply, at branch level, performance evaluation and measurement models based on specific targets;
- Are supported by appropriate software and hardware systems;
- Are subject to regular internal and external audits.

The effectiveness of the System of Internal Control is reviewed on a more regular basis by the Audit and Risk Management Committees through regular reports to the Board. In carrying out their reviews, the Audit and Risk Management Committees receive reports on internal controls, both financial and non-financial, internal audit reports, external audit reports and regulatory reports. In addition, since 3rd September 2018, the Committees receive special / ad hoc reports and/or updates on the integration work taking place in relation to the acquisition of certain assets and liabilities from the ex Cyprus Cooperative Bank Limited, to ensure that the effectiveness of the System of Internal Control is duly preserved.

The Executive Management of the Group is responsible for addressing weaknesses arising out of these reviews and for ensuring that mitigating actions are implemented within an appropriate and agreed timetable.

The Internal Audit Unit reports directly to the Audit Committee and the Board of Directors itself. It consists of 52 persons and is headed by Mrs Niki Nicolaidou-Hadjixenophontos (B.Sc. Honours in Financial Services, M.B.A., A.C.I.B., F.C.C.A.).

The following audit assignments have been outsourced in 2018 to external audit firms:

(a) Audit of the Insurance subsidiary companies of the Group (Pancyprian Insurance and Hellenic Alico Life),
(b) Audit of operating and database systems,
(c) Audit of the Ship Finance Unit.

(9) Confirmation in Accordance with the Provision C.2.1. of the Code

In relation to paragraph (8) above (System of Internal Control), the Members of the Board of Directors confirm that they have reviewed the adequacy of the systems of internal control of the Company as well as the procedures for verification of correctness, accuracy and validity of information disseminated to investors.

The Board also confirms that, to its knowledge, no violation in the Stock Exchange Legislation and Regulations has occurred, except in cases already reported to the relevant authorities (where this applies).

(10) External Auditors – Provision C.2.2. of the Code

In 2018 Messrs KPMG, External Auditors of the Company, offered non-audit services e.g. tax services, general and specialised advisory services, review of various returns, training seminars, etc. Their objectivity and independence are ensured in the following ways:

(a) Non-auditing services are offered by different companies / departments of the KPMG Group in accordance with the professional code of certified accountants / auditors ("Chinese Walls").

(b) The KPMG team that carries out the external audit of the Company does not participate in offering any other services except auditing.

(c) The offer of non-audit services by the External Auditors is monitored by the Audit Committee in a manner which, aims to ensure that their objectivity and independence are not compromised.

Messrs KPMG have confirmed in writing to the Company that the offering of the abovementioned services does not affect their independence and objectivity. The External Auditors do not offer internal audit services to the Company.

(11) Credit Facilities to Directors

Information as to credit facilities provided to Company Directors (and related parties) is to be found in the relevant notes to the Financial Statements contained within the present Annual Report (Note 41). It is confirmed that credit facilities to Company Directors (and related parties) or to its subsidiary or associated company Directors are granted in the normal course of the Company's business, under normal commercial and employment terms and with transparency. Furthermore, it is confirmed that all relevant cases of Bank facilities to Company Directors and its subsidiary company Directors are forwarded for approval to the Board, after the relevant proposal of the Board's Audit Committee. The interested Member of the Board is neither present nor participates in the procedure.

(12) Executive Officer ensuring compliance with the Code of Corporate Governance

The Company has appointed Mrs Maria Vovides-Iliescu, Assistant Company Secretary, as Executive Officer ensuring compliance with the Code of Corporate Governance.

(13) Board Committees

The following Board Committees operate within the Company:

(a) Audit Committee

Chairperson: Dr Evripides A. Polykarpou (from 20th August 2018)
Lambros Papadopoulos (until 11th July 2018)

Members: Christodoulos A. Hadjistavris (until 20th August 2018)
Andreas Christofides (until 20th August 2018)
Stephen John Albutt
Irena A. Georgiadou
Marianna Pantelidou Neophytou (from 20th August 2018).

(b) Remuneration Committee

Chairperson: Stephen John Albutt (Chairman from 20th August 2018)
Dr Evripides A. Polykarpou (until 20th August 2018)

Members: David Whalen Bonanno
Christodoulos A. Hadjistavris
Lambros Papadopoulos (until 11th July 2018)
Irena A. Georgiadou (from 20th August 2018)
Andrew Charles Wynn (from 20th August 2018).

(c) Nominations / Internal Governance Committee

Chairperson: Youssef A. Nasr (from 20th August 2018)
Irena A. Georgiadou (until 20th August 2018)

Members: Marianna Pantelidou Neophytou
David Whalen Bonanno
Dr Evripides A. Polykarpou
Demetrios Efstathiou.

(d) Risk Management Committee

Chairperson: Andrew Charles Wynn

Members: Marianna Pantelidou Neophytou (until 20th August 2018)
Marinos S. Yannopoulos
Andreas Christofides
Demetrios Efstathiou
Christodoulos A. Hadjistavris (from 20th August 2018).

(e) Integration Committee

Chairperson: Irena A. Georgiadou (from 20th August 2018)

Members: Marinos S. Yannopoulos (from 20th August 2018)
Andreas Christofides (from 20th August 2018).

The terms of reference of the above Committees (except the temporary / ad hoc Integration Committee) are based both on the relevant provisions of the Code pertaining to them and the relevant guiding Directives of the Central Bank of Cyprus. They are published in paragraph 14 below while those of the Remuneration Committee are included in the Remuneration Policy Report. Within the framework of the provisions of the Code concerning relations with shareholders, the Chairpersons of these Committees are available to answer any questions at the Annual General Meeting, at which all shareholders are encouraged to participate. The Chairpersons and Members of the Committees periodically submit reports or proposals to the Board of Directors following meetings of the corresponding Committees, depending on the subjects being addressed.

The **Audit Committee** meets before the announcement of the quarterly results, to monitor the integrity, accuracy and reliability of the Group's quarterly and annual financial reporting process and Financial Statements as well as any formal announcements relating to the Group's financial performance, to assess the adequacy of the provisions in line with accounting policies and standards and to monitor the establishment of accounting policies and practices, paying particular attention to (i) changes to critical accounting policies and practices, (ii) decisions requiring a significant element of judgement and (iii) unusual transactions and how these are disclosed. It then proceeds with the relevant suggestions to the Board of Directors through a detailed memo.

The Audit Committee submits proposals to the Board regarding the appointment, compensation, terms and scope of engagement and substitution or rotation of the approved Auditor and other external Auditors of the Group. The Committee monitors and ensures the independence and effectiveness of the Auditors and oversees the relationship between them and the Group.

The Audit Committee also meets (without the presence of Members of the Executive Management, unless the Audit Committee deems their attendance necessary, but with the presence of the Control Functions that report to it) to review matters that are within its responsibility and terms of reference, especially in relation to the design, operation, adequacy and effectiveness of the Systems of Internal Control and Compliance. The Committee makes recommendations or suggestions to the Board on issues under its jurisdiction.

The Audit Committee assesses and monitors the independence, adequacy and effectiveness of the Internal Audit and Compliance Functions.

It is noted that Pancyprian Insurance Ltd and Hellenic Alico Life Insurance Company Ltd also maintain an Audit Committee.

During 2018, the Audit Committee held eighteen meetings, one of which was held jointly with the Risk Management Committee.

The Committee's Chairperson has university degrees in Business Administration (B.Sc. in Business, M.B.A. in Financial Management). He has extensive senior executive and/or non-executive experience, amongst others, in development of systems and processes, budget development and control, purchasing and logistics, quality assurance, corporate governance and compliance, having served as a Compliance Officer. The rest of the Committee Members are Chartered Accountants - Members of the Institute of Chartered Accountants in England and Wales.

The **Risk Management Committee** assists the Board of Directors in fulfilling its responsibilities and obligations concerning the identification, measurement, monitoring and effective management of all the Group's risks (including but not limited to credit, interest-rates, operational, market, liquidity, foreign exchange, reputation, capital and other risks). Amongst other duties, the Committee prepares and submits proposals for approval to the Board concerning the principles, framework, policies and risk appetite in relation to undertaking and managing all forms of risk and the use of capital that corresponds to the business objectives of the Company, the Group and/or each subsidiary company separately. The Committee's mission includes promoting a culture of risk awareness and appropriate risk undertaking across the Group and assisting the Board of Directors in overseeing the effective implementation of the Risk Appetite Framework and Strategy.

It is noted that Pancyprian Insurance Ltd and Hellenic Alico Life Insurance Company Ltd also maintain a Risk Management Committee.

The Risk Management Committee meets whenever necessary and at least every month. During 2018, the Committee held eighteen meetings, one of which was held jointly with the Audit Committee.

The **Remuneration Committee** defines and recommends for approval by the Board of Directors the Remuneration Policy, including pensions and variable compensation and the Remuneration Principles of the Group, which are aligned to the Group's strategic objectives and values. The Committee meets whenever it is necessary to fix or review the remuneration of Executive and non-Executive Members of the Board of Directors, the Company Secretary, the Chief Executive Officer, the Officers reporting directly to the Chief Executive Officer and the Heads of the Control Functions. After considering all relevant parameters and data, it makes relevant recommendations to the Board for making decisions, in the absence of the Executive Member(s) of the Board or other Officers involved. It is also engaged in reviewing and making proposals on the remuneration of the Executive and non-Executive Members of the Board of Directors of the subsidiaries or associated companies of the Group.

The Committee's suggestions and the Group's Remuneration Policy take into consideration the relevant responsibilities, workload, qualifications, know-how, academic background, experience, individual performance, remuneration of comparable positions in the market, especially in areas where the Group is active, remuneration at other levels in the Group as well as non-financial criteria e.g. compliance with applicable rules and procedures. The Committee's aim is to attract and retain good quality officers at Executive and General Management levels, in order to better serve the interests of the Group as well as those of its Shareholders and other stakeholders. The Remuneration Committee proposes to the Board of Directors the Annual Remuneration Policy Report, as part of the Annual Report of the Company, which is submitted to the Annual General Meeting of the Shareholders for approval The Committee also reviews and approves the Disclosure of Information regarding the Annual Remuneration of the Directors, which is prepared by Human Resources for inclusion in the notes to the annual accounts of the Company and the Remuneration Policy Report itself.

During 2018, the Remuneration Committee held two meetings.

The **Nominations / Internal Governance Committee** is engaged in selecting fit and proper individuals for appointment as Board Members of the Company or its subsidiaries or associated companies of the Group or any other company in which the Company has the right to appoint Members of the Board, either for positions extraordinarily vacated or after the retirement of Board Members. The Committee then submits its suggestion(s) to the Board of Directors for reaching a relevant decision. The new Members of the Board undergo a detailed induction programme. The Committee also has the responsibility of implementing the Group's policies on Internal Governance as well as to oversee the Board's Evaluation and Succession Plan. The Nominations / Internal Governance Committee meets whenever issues within its competency arise.

During 2018, the Nominations / Internal Governance Committee held five meetings.

Following the acquisition of certain assets and liabilities from the ex Cyprus Cooperative Bank Limited, the Board of Directors decided to establish a temporary / ad hoc Integration Committee of the Board as from 1st August 2018. The **Integration Committee** has been established to ensure the effective oversight and input of the Board of Directors in smoothly implementing the integration plan of the acquired business into that of the Bank. It is anticipated that the Integration Committee will be operational for a period of up to 18 months.

The Integration Committee meets whenever necessary and at least twice every month. During 2018, since its establishment, the Committee held eight meetings.

(14) Terms of Reference of the Board of Directors' Committees (except the Remuneration Committee and the temporary / ad hoc Integration Committee)

Terms of Reference of the Audit Committee

1. Establishment / Mission

The Audit Committee was established to fulfil the following mission in relation to Hellenic Bank Public Company Limited ('the Company' or 'the Bank' or 'the Group'):
The primary mission of the Committee is to ensure compliance with all required laws and regulations including but not limited to the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus' and European Central Bank's Directives and requirements and the Cyprus Stock Exchange's Code of Corporate Governance, in relation to Internal Audit and Compliance.

The Audit Committee reviews and challenges, where necessary, Group policies, practices, controls and actions and judgement of the management team that contribute to the sound management and conduct of the operations and activities of the Company.

The Committee is responsible for assisting the Board of Directors ('the Board') in the effective monitoring of the activities and operations of the Group.

In order to accomplish its mission, the Committee has under its direct monitoring and control the Internal Audit Unit, which is independent of the Executive Management and accountable to the Committee. Also, the Compliance Unit reports quarterly to the Committee on matters related to the adequacy and effectiveness of the Compliance Framework and the Framework for Business Conduct.

The Committee has adequate access to the Internal Control Functions and with the approval of the Board, it obtains independent professional advice whenever it deems this necessary.

2. Composition and Term-in-Office of Members of the Audit Committee

The Board appoints at least three and up to seven non-Executive Directors as Members of the Committee. The majority of the Members of the Committee must be independent non-Executive Members of the Board.

The Audit Committee as a whole should have:

(a) Recent and relevant practical experience in the area of financial markets or professional experience directly linked to financial markets activity and

(b) Knowledge of the Group's broader business environment, including information systems, technology, compliance and internal audit.

Members of the Committee must not hold any other posts or positions or conduct transactions which could be considered to be in conflict with the Terms of Reference of the Committee.

Members of the Committee cannot participate in more than two (2) committees, including the Audit Committee.

The Chairperson of the Committee shall be independent and have specialist knowledge and experience in the application of accounting principles and internal control processes and will be appointed by the Board.

The Chairperson of the Board shall not be a Member of the Audit Committee.

The term-in-office of the Members of the Committee is decided by the Board.

3. Meetings of the Committee

The Committee holds meetings, at least quarterly, which, where appropriate, must coincide with important financial reporting dates. In emergency or crisis situations, the Committee may convene via teleconferencing for decision-taking. The next integral number of one half of the Members comprises a quorum.

The Committee invites regularly to its meetings the Head of the Internal Audit Unit, the Head of the Compliance Unit and any officers of the Group, whose opinion it considers necessary for the best conduct of its duties and compliance.

The Chairperson of the Committee must ensure that no other person is present, including other Members of the Board, unless formally invited to attend for a specific item(s) on the agenda. Any such person is present only during the discussion of the specific item and leaves the meeting room immediately after, without any participation in the decision-making process.

The Company Secretariat must be closely involved in the preparation of the meeting's agenda and ensure it is distributed, including supporting papers where relevant, at least three (3) business days in advance of the meeting.

The Committee reports regularly to the Board and the Company Secretariat ensures that minutes of the Committee's meetings and decisions are kept in accordance with Paragraph 7(4) of the Governance and Management Arrangements Directive of 2014 of the Central Bank of Cyprus, which it circulates to the Board.

The Committee liaises and holds meetings with the external Auditors frequently to discuss matters arising from their audit findings.

4. Decision-making Process

4.1 The Committee is authorized by the Board to:

(a) Investigate any activity within its Terms of Reference,

(b) Seek any information and clarifications from any employee of the Company. All employees are required to co-operate with any request made by this Committee.

4.2 The decisions of the Committee are taken by majority voting. In the event of an equality of votes, the Chairperson of the meeting shall not have a second or casting vote and the item in discussion must be escalated to the Board of Directors.

5. Duties and Responsibilities

The duties and responsibilities of the Committee are the following:

5.1 Financial Statements

5.1.1 It monitors the integrity, accuracy and reliability of the Group's quarterly and annual financial reporting process and Financial Statements, as well as any formal announcements relating to the Group's financial performance.

5.1.2 It assesses the adequacy of the provisions in line with applicable accounting policies and standards and submits a relevant report to the Board of Directors and the Risk Management Committee on a quarterly basis.

5.1.3 It monitors the establishment of applicable accounting policies and practices, paying particular attention to the following:

(a) Changes to critical accounting policies and practices,

(b) Decisions requiring a significant element of judgement,

(c) Unusual transactions and how these are disclosed.

5.1.4 It monitors the effectiveness of the internal quality control and risk management systems as well as internal audit in relation to the Group's quarterly and annual financial reporting.

5.2 External Audit

5.2.1 It submits proposals to the Board regarding the appointment, compensation, terms and scope of engagement and substitution or rotation of the approved Auditor and other external Auditors of the Group. It is responsible for any selection procedure run and complying with all the regulatory requirements in relation to such procedures.

5.2.2 It monitors and ensures the independence and effectiveness of the Auditors, including:

(a) Seeking from the Auditors information about the policies and procedures for maintaining independence and compliance with relevant requirements, at least on an annual basis.

(b) Seeking reassurance that the Auditors and their staff have no family, financial, employment or business relationship with the Company (other than in the normal course of business).

(c) Discussing with the Auditors the threats to independence and applicable safeguards as well as the key issues related to independence in the Auditors' Additional Report to the Audit Committee and mitigation actions.

(d) Taking account of the Audit Firm's Partners rotation policy.

(e) Overseeing the Auditors' compliance with the reporting requirements in relation to the Audit Report and the Auditors' Additional Report to the Audit Committee.

(f) Monitoring the history of new key management staff joining the Group in relation to previous employment by the incumbent Auditors.

5.2.3 It oversees the relationship between the Group and its Auditors.

5.2.4 It evaluates the extent and effectiveness of the audits and examines ways to better co-ordinate the audit effort to ensure complete coverage, avoidance of overlapping work and the best use of available audit resources (cost effectiveness).

5.2.5 It monitors the Statutory Audit of the Annual Financial Statements, taking into account any findings or conclusions of the Cyprus Public Audit Oversight Board.

5.2.6 It informs the Board of the outcome of the Statutory Audit, explaining its contribution to the integrity of the Group Financial Statements.

5.2.7 It evaluates the statements made / matters identified in the Audit Report and the Auditors' Additional Report to the Audit Committee.

5.2.8 It evaluates the comments and proposals of the Auditors with regard to the management of the Group, the preparation and presentation of its Financial Statements and the monitoring of their application.

5.2.9 It is responsible for the oversight of permissible non-audit services ('NAS') to the Bank and its subsidiary or affiliated companies by their Auditors, taking into account the nature of the services offered, the threats to their independence and the safeguards applied.

5.2.10 The Committee Members must satisfy themselves that the NAS provided by the Auditors do not compromise the Auditors' independence. Factors that the Committee Members should consider include:

(a) The level of fees paid for the provision of NAS as a proportion of total fees paid to the Auditors. The Committee is informed quarterly by Finance and the Auditors about the nature, extent and fees of NAS or other advisory assignments of the Auditors.

(b) Regarding the NAS provided, the aim is to maintain the balance between objectivity and the value added by the NAS at Group level.

(c) In the case where NAS are offered to a subsidiary or affiliated company of the Bank and the volume is such that it downgrades the objectivity of their audits, the Committee informs the corresponding Committee (where it exists) of the subsidiary company or its Board of Directors.

(d) The Auditors must provide a written confirmation of independence for all NAS, approved by the appropriate authority within the external audit firm (typically the principal engagement partner).

5.2.11 It is responsible for approving the NAS provided by the Auditors, ensuring that the NAS are non-prohibited and ensuring the Auditors' independence by monitoring the volume, nature and fees of NAS. All requests for approval of NAS provided by the Auditors are submitted to the Committee through Finance.

5.2.12 It prepares annually a report in which the audit services and NAS are recorded by category, time and fees paid to the Auditors. This report is submitted to the Board, along with the relevant comments of the Committee.

5.3 Internal Audit

5.3.1 It approves and evaluates the Internal Audit Charter.

5.3.2 The Internal Audit Unit submits its annual audit plan and budget to the Audit Committee for review and approval, ensuring appropriate coverage, prioritisation and flexibility to adapt to variations in response to developments. Any changes that are likely to be made to the audit plan or the budget during the year must also be approved by the Committee.

5.3.3 It submits to the Board its recommendations on the appointment and replacement of the Head of the Internal Audit Unit.

5.3.4 It assesses, on an annual basis, the performance of the Head of the Internal Audit Unit and submits his/her annual appraisal to the Board.

5.3.5 It assesses and monitors the independence, adequacy and effectiveness of the Internal Audit Unit.

5.3.6 It monitors and assesses, on an annual basis, the adequacy and effectiveness of the Group's internal control systems and information systems, based on reports of the Internal Audit Unit and the observations and comments of the external Auditors and the competent supervisory authorities.

5.3.7 It reviews the quarterly and annual reports submitted by the Chief Internal Auditor, which are subsequently submitted to the Board.

5.3.8 It submits to the Board reports regarding the following:

(a) Proposals for addressing any weaknesses of the internal control systems and information systems, which have been identified based on reports of the Internal Audit Unit and the observations and comments of the external Auditors and the competent supervisory authorities.

(b) Matters relating to the independence and smooth execution of the audit work carried out by the Internal Audit Unit.

5.3.9 (a) It confirms that the Company assigns the assessment of the adequacy of the Internal Control System, on an individual and consolidated base, to external Auditors who have the necessary experience.

(b) It evaluates the findings of the above assessment and proposes corrective measures to the Board.

5.3.10 It ensures that the Internal Audit Unit has adequate resources and appropriate standing within the Company.

5.4 Compliance

5.4.1 It assesses and monitors the independence, adequacy and effectiveness of the Compliance Unit.

5.4.2 It submits to the Board its recommendations on the appointment and replacement of the Head of the Compliance Unit.

5.4.3 It assesses, on an annual basis, the performance of the Head of the Compliance Unit and submits his/her annual appraisal to the Board.

5.4.4 It advises the Board, drawing on the work of the Compliance Unit, on the adequacy and effectiveness of the Framework for Business Conduct.

5.4.5 It advises the Board, drawing on the work of the Compliance Unit and external Auditors, on the adequacy and effectiveness of the Compliance Framework (including the Compliance Monitoring Programme and Compliance Policies). Anti-Money Laundering Compliance is not included therein but it is the direct responsibility of the Board to monitor.

5.4.6 The Compliance Unit submits its annual Compliance action plan / programme and budget to the Audit Committee for approval, ensuring that they are sufficiently flexible to adapt to variations in response to developments.

5.4.7 It reviews the quarterly and annual compliance reports submitted by the Head of the Compliance Unit, which are subsequently submitted to the Board. The annual reports of the Money Laundering Compliance Officer are submitted directly to the Board.

5.4.8 It ensures that the Compliance Unit has adequate resources.

5.5 Miscellaneous Issues

5.5.1 It assigns to the Internal Audit Unit or to independent experts, following the authorisation of the Board, the investigation of any matters which fall within its \\ mission and responsibilities.

5.5.2 It requests information from Management on the significant risks to which the Group is exposed; it evaluates the measures taken by the Management and the Board to minimise these risks and submits its recommendations for the improvement of those measures.

5.5.3 It investigates any other important data, information or facts that concern and influence the performance and operation of the Company or its compliance with the laws and regulations that govern it.

5.5.4 It oversees that Senior Management takes the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by external Auditors, the Internal Audit and Compliance Units and the supervisory authorities.

5.5.5 Following a decision of the Audit Committee, the Chairperson of the Audit Committee convenes a joint meeting with the Members of the Audit Committee of a subsidiary company to discuss and study any matters concerning that company as may be deemed necessary.

5.5.6 The Committee has the responsibility for examining any significant transactions, of any nature, carried out by the Bank and/or its subsidiary companies, in which a Member of the Board, the Chief Executive Officer, a Senior Executive, the Company Secretary, the Auditor or a major shareholder of the Company (who directly or indirectly holds more than 5% of the issued share capital of the Company or its voting rights) has, directly or indirectly, any significant interest, so as to ensure that these transactions are carried out within the framework of the Company's normal commercial practices (at arm's length).

The above definition includes the Members of the Board of subsidiary companies.

5.5.7 It prepares, with the assistance of the Executive Officer responsible for ensuring compliance with the Corporate Governance Code, the Report of the Board of Directors on Corporate Governance to be included in the Group's Annual Report.

5.5.8 It handles any eponymous or anonymous reports by employees, submitted in the context of the Group's formal relevant policy.

5.5.9 It assesses the adequacy and effectiveness of the appeals process, based on reports of the Appeals Committee, and of the Appeals Committee itself. It identifies any weaknesses or gaps in the loans restructuring process and it subsequently informs the Management and the Board on further action as it considers necessary.

5.5.10 It carries out a self-assessment and reports to the Board its conclusions and recommendations for improvements and changes in relation to the structure, the responsibilities and the work of the Committee.

5.5.11 The Chairperson of the Committee will be available for personal, telephone, electronic or written communication, upon request of the Company's shareholders, regarding issues concerning the work of the Committee. He/She will also be available to answer any questions raised during the Annual General Meeting or any other informative meeting of the Company's shareholders.

5.5.12 Information regarding the structure and work of the Committee will also be included in the Annual Corporate Governance Report of the Board of Directors of Hellenic Bank Public Company Limited.

6. Validity and Amendments of the Terms of Reference

The Terms of Reference are reviewed regularly, at least annually, to ensure continuing appropriateness. The reviews must be documented and include, where necessary, recommendations to the Board on revisions so as to reflect any new practices that may be adopted by the Group. These may include organisational restructuring, Directives of the Central Bank of Cyprus, amendments in the relevant legislation, new Directives of the Securities and Exchange Commission or new Regulations of the Cyprus Stock Exchange which are added to the Code.

7. Code of Corporate Governance

Notwithstanding the above, the Audit Committee will function strictly within the framework of the relevant provisions of the Code of Corporate Governance, as determined in Chapter C of the Code.

Terms of Reference of the Risk Management Committee of the Board of Directors

1. Establishment / Mission

The Board Risk Management Committee ('BRMC') of Hellenic Bank Public Company Limited ('the Company' or 'the Bank' or 'the Group') was established to fulfil the following mission:

1.1 Set a well-defined and clearly communicated strategy for risk management and information security throughout the Group and embedding of the Risk Appetite Framework ('RAF');

1.2 Promote and embed a culture of risk / information security awareness and appropriate risk taking across the Group and assist the Management Body of the Bank in implementing the strategy;

1.3 Promote risk-informed decision making across the Group;

1.4 Ensure compliance with all required laws and regulations including but not limited to the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus' and European Central Bank's Directives and requirements, and the Cyprus Stock Exchange's Code of Corporate Governance in relation to Risk Management and Information Security;

1.5 Periodically review the Bank's Enterprise Risk Management Framework and the Information Security Framework (Policy);

1.6 Ensure that the Risk Management and Information Security Functions fulfill their responsibilities and obligations concerning the identification, measurement, monitoring and effective management of all Group risks.

2. Composition of the Risk Management Committee

The Committee is appointed by the Board of Directors ('BoD' or 'Board') and consists of three to seven non-Executive Directors with sufficient knowledge and experience in the Risk Management sector. The majority of the Members of the Committee must be independent non-Executive Members of the Board.

Members of the Risk Management Committee can be members of only one other Board Committee.

The Chairperson of the Committee is appointed by the Board.

The term-in-office of the Members of the Committee is decided by the Board.

The Board can, during the term-in-office of the Committee: (a) replace any Member of the Committee, including the Chairperson and (b) fill positions in the Committee which are vacated for any reason.

Committee Members shall not hold any other posts or positions or conduct transactions which could be considered to be in conflict with the Terms of Reference of the Committee.

Committee Members shall have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the Company.

3. Meetings / Decision-making Process of the Risk Management Committee

The Committee shall meet whenever necessary and at least twice every quarter. In emergency or crisis situations, the Committee may convene via teleconferencing for decision-taking. A Committee resolution in writing signed or approved by email, text message, fax or any other means of transmission (i.e. Diligent) by ALL Committee Members shall be valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

The majority of Committee Members shall comprise a quorum. A majority of Committee Members shall be considered to be the next integral number of one half of the Members. A decision of the Committee may be adopted by the majority of attending Committee Members. In the case of a tie, the Chairperson shall not have a second or casting vote and the item in discussion must be escalated to the Board of Directors.

The Company Secretariat must be closely involved in the preparation of the meeting's agenda and ensure it is distributed, including any supporting papers where relevant, at least three (3) business days in advance of the meeting.

The Company Secretariat must ensure minutes of the Committee's meetings and decisions are kept in accordance with Paragraph 7(4) of the Governance and Management Arrangements Directive of 2014 of the Central Bank of Cyprus and circulate them to the Board. In addition, the Company Secretariat must send the approved Committee minutes to the Central Bank of Cyprus within one month of the meeting date in accordance with the requirements of the Governance Directive.

The Company Secretariat works in close cooperation with Enterprise Risk Management & Governance Unit to coordinate: (i) the submission of support material and information to the Risk Management Committee and (ii) the communication between the Risk Management Committee and relevant stakeholders.

The Committee has the approval of the Board to obtain independent professional advice whenever it deems this necessary.

The Committee may formally invite to any of its meetings, for a specific item or items on the agenda, any person who may contribute towards that specific item. Such person is present only during the discussion of the specific item and leaves the meeting room immediately after without any participation in the decision making process.

4. Duties and Responsibilities of the Risk Management Committee

The Committee shall carry out the duties set out below:

Frameworks and Policies

4.1 Define and submit for periodic review, prior to Board approval:

4.1.1 The principles which should govern risk management as set out by the Enterprise Risk Management Framework ('ERMF'), the framework for undertaking all forms of risk, and the risk frameworks covering individual risks;

4.1.2 The principles which should be considered in the recruitment of employees, the selection of vendors, the development of products, services, and processes as well as in the implementation and operation of information systems and information processing facilities as set out by the Information Security Framework and the Information Security Policy itself;

4.1.3 The appropriate allocation of capital across the various divisions of the Group that would enable the Company, Group and/or each subsidiary separately to achieve their business objectives, in accordance to the Strategic Plan of the Group, and within the constraints and guidelines laid out in the Capital Plan and in the Risk Appetite Framework and Statement;

4.1.4 The policies of the Group with regard to the limits and pricing of undertaking Group risks;

4.1.5 All other risk related policies cascading from ERMF and the risk frameworks.

4.2 Cultivate an internal environment of risk management, information security, appropriate risk taking and control, that will govern the business decision-making processes across the activities and Units of the Group and its subsidiaries and which will be consistent with the Board's communicated Business Strategy and Risk Appetite Statement.

Risk Appetite / Risk Strategy

4.3 Advise and develop recommendations for the Board on the Group's overall current and future risk appetite and ensure it remains consistent with the Bank's short and long-term strategy, business and capital plans, risk capacity as well as compensation programs; taking into account relevant legal and regulatory requirements.

4.4 Assist the Board in overseeing the effective implementation of the risk appetite framework and strategy by senior management including:

(i) The development of mechanisms to ensure material exposures that are close to or exceed approved risk limits are managed and, where necessary, mitigated in an effective and timely manner;
(ii) The identification and escalation of breaches in risk limits and of material risk exposures in a timely manner;
(iii) Submitting proposals and recommendations for corrective actions whenever weaknesses are identified in implementing the risk strategy;
(iv) Embedding attitudes around risk taking, management and control in line with the Board's communicated Strategy and Risk Appetite Statement.

4.5 Review whether prices, terms and conditions of liabilities and assets offered to clients take fully into account the Company's business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the Committee shall require that management prepare a remedy plan for BRMC examination and review for presentation to the Board.

Capital Management

4.6 Review and recommend to the Board for approval relevant regulatory submissions after review and approval at Executive Level such as the Group's Internal Capital Adequacy Assessment Process ('ICAAP'), the Group's Stress Testing Process and the Group's Recovery Plan.

4.7 Approve the methodology, assumptions and parameters used for the calculation of the provisions by the Risk Management Function.

Liquidity Management

4.8 Review and recommend to the Board for approval relevant regulatory submissions and returns after review and approval at Executive Level such as the Group's Internal Liquidity Adequacy Assessment Process ('ILAAP') and the Group's Liquidity Contingency Plan.

Risk Data Aggregation and Reporting

4.9 Oversee the implementation of the Basel Risk Data Aggregation and Risk Reporting Principles and in particular review the Framework for Risk Data Aggregation and Reporting.

Pillar 3 Disclosures

4.10 Review and recommend to the Board for approval the Group's Compliance Policy to the Pillar 3 disclosure requirements as per CRR / CRD IV.

4.11 Review and endorse statements in relation to financial and operational risk made in the risk management section of the Pillar 3 Disclosures.

Remuneration

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

Control Functions

4.13 Assess and monitor the independence, adequacy and effectiveness of the Risk Management and Information Security Functions, including carrying out the annual appraisal of the Chief Risk Officer and Head of Information Security and submit the relevant reports to the Board.

4.14 Submit to the Board recommendations for the appointment or removal of the Heads of the Risk Management and Information Security Functions.

4.15 Advise the Board, drawing on the work of the Audit Committee, Risk Management Function, Information Security Function and External Auditors, on:

(i) the adequacy and effectiveness of the risk management and information security frameworks and propose improvements where necessary;
(ii) the adequacy and robustness of information and communication systems to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner and ensure the adequate protection of the Company's confidential and proprietary information;
(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 Company.

4.16 Review and approve the budgets of the Risk Management and Information Security Functions, ensuring that they are sufficiently flexible to adapt to variations in response to developments.

Risk Management and Information Security Information

4.17 Determine the nature, the amount, the format and the frequency of the information which it is to receive on the risk situation of the Company and for each type of risk and each business unit. The Committee must:

(i) approve metrics or a process to satisfy itself that the risk reports and information it receives are accurate, comprehensive and depict an appropriate view of the Company's risk profile;
(ii) ensure that risk parameters and risk models developed and used to quantify them are subject to periodic independent validation.

4.18 Review the Group's risk profile in relation to its strategy and risk appetite and monitor material risks, key risk trends, concentrations and exposures by considering and evaluating:

(i) the quarterly reports submitted by the Chief Risk Officer within two months from the end of each quarter and inform the Board accordingly;
(ii) the half-year report submitted by the Head of Information Security within two months from the end of the first half-year and inform the Board accordingly;
(iii) the annual reports submitted by the Heads of the Risk Management and Information Security Functions within two months from the end of each year and submit these to the Board, accompanied by the Committee's assessment of the reports;
(iv) the relevant reports prepared by Internal Audit Unit, subsidiary Boards and/or Risk Committees and the Regulators and oversee that corrective measures are implemented where these are necessary;
(v) the monthly Risk Management Information Report ('Risk MIR') by 22nd of the month following each calendar month end.

4.19 Promote the development of relevant Early Warning Indicators.

Evaluation of Risks

4.20 The Committee reviews the evaluation and recommendations of the Risk Management Function related to the involvement of the Group in new markets, new companies or business ventures and submit its respective recommendations to the Board.

4.21 The Committee shall periodically and at least on a six-monthly basis evaluate the Arrears Management Strategy and its underlying hypothesis and assumptions and submit the revised strategy to the CBC as well as ensure appropriate control mechanisms to effectively manage NPE and Forborne loans.

4.22 The Risk Management Committee shall work with the Audit Committee of the Board to ensure that a global view is taken in the management of risk.

Committee Governance

4.23 The Committee shall review its Terms of Reference regularly, at least annually, to ensure continuing appropriateness. The reviews must be documented and include, where necessary, recommendations to the Board on revisions.

4.24 The Committee shall conduct a self-assessment and report its conclusions and recommendations for improvements and changes to the Board.

4.25 The Chairperson of the Committee shall be available for personal, telephone, electronic or written communication, which shareholders of the Company may request, regarding issues concerning the work of the Committee. The Chairperson shall also be available to answer any questions during the Annual General Meeting or any meeting for the purposes of briefing the shareholders of the Company. Information concerning the structure and work of the Committee will also be given in the Annual Corporate Governance Report of the Board of Directors of Hellenic Bank Public Company Limited.

Terms of Reference of the Nominations / Internal Governance Committee

1. Role of the Nominations / Internal Governance Committee

The Nominations / Internal Governance Committee is primarily responsible to prepare proposals for the Board of Directors ('the Board') regarding the selection of individuals for nomination as Members of its Board or the Boards of subsidiary or associated companies of the Group or of any other company in which Hellenic Bank Public Company Limited ('the Company') has the right to appoint any member of the board, either to fill extraordinarily vacated or vacant seats or after the retirement of a Member in accordance with the retirement policy due to age.

In addition, the Committee is responsible to prepare proposals for the Board regarding the selection of the Chief Executive Officer ('CEO') of the Company or its subsidiary companies or associated companies of the Group or any other company in which the Company has the right to appoint a CEO or the appointment of any Executive member of the board of directors of the Company or the board of directors of any of its subsidiary companies. The Committee is also responsible for the development, implementation and oversight of policies of internal governance arrangements within the Group.

The Committee also ensures that the Company complies with the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus' Directives and the Cyprus Stock Exchange's Code of Corporate Governance.

2. Composition of the Nominations / Internal Governance Committee

The Committee is appointed by the Board and consists of three to six exclusively non-Executive Directors. The majority of the Members of the Committee must be independent non-Executive Members of the Board.

Members of the Nominations / Internal Governance Committee can be members of only one other Board Committee.

The Chairperson of the Committee is appointed by the Board.

The term-in-office of the Members of the Committee is decided by the Board.

Committee Members shall not hold any other posts or positions or conduct transactions which could be considered to be in conflict with the Terms of Reference of the Committee.

3. Meetings / Decision-making Process of the Nominations / Internal Governance Committee

The Committee shall meet whenever necessary and at least on a quarterly basis. The Committee may convene via teleconferencing for decision-taking. A Committee resolution in writing signed or approved by email, text message, fax or any other means of transmission (i.e. Diligent) by ALL Committee Members shall be valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

The majority of Committee Members shall comprise a quorum. A majority of Committee Members shall be considered to be the next integral number of one half of the Members.

The decisions of the Committee are taken by majority voting. In the event of an equality of votes, the Chairperson of the meeting shall not have a second or casting vote and the item in discussion must be escalated to the Board of Directors.

The Company Secretariat must be closely involved in the preparation of the meeting's agenda and ensure it is distributed, including any supporting papers where relevant, at least three (3) business days in advance of the meeting.

The Company Secretariat must ensure minutes of the Committee's meetings and decisions are kept in accordance with Paragraph 7(4) of the Governance and Management Arrangements Directive of 2014 of the Central Bank of Cyprus and circulate them to the Board.

The Committee has the approval of the Board to obtain independent professional advice whenever it deems this necessary.

The Committee may formally invite to any of its meetings, for a specific item or items on the agenda, any person who may contribute towards that specific item. Such person is present only during the discussion of the specific item and leaves the meeting room immediately after without any participation in the decision-making process.

4. Duties and Responsibilities of the Nominations / Internal Governance Committee

The Committee shall carry out the duties set out below for the Company and its subsidiaries:

Board Evaluation

4.1 Assess at least annually, the structure, size, composition and performance of the Board and make recommendation with regard to any changes to the Board.

4.2 Evaluate regularly and at least annually, the skills, knowledge, experience, diversity and expertise of Members of the Board of Directors and those of the Group's subsidiary companies, individually and collectively, reporting accordingly to the Board.

4.3 Assign at least every three (3) years the review and evaluation of the composition, efficiency and effectiveness of the Board and its Committees to an independent external consultant to bring an objective perspective and share leading industry practices.

Board Succession Plans

4.4 Review periodically and at least annually, succession plans for the Board to ensure on the one hand that successions occur smoothly and an appropriate balance of diversity, skills and experience is maintained, and on the other hand the progressive renewal of the Board, reporting accordingly to the Board.

Policies

4.5 Define, for the approval by the Board, and periodically review policies for:

(a) Appointment of Board Members, including the necessary qualifications that an individual should possess in order to serve as a member of the Board of Directors of any of the Group's companies and

(b) Board diversity, including a target representation of the underrepresented gender and how to reach and maintain this target.

4.6 Review periodically and at least annually, the policy for selection, development, appointment and replacement of senior management and Heads of Group Control Functions and make recommendations to the Board.

4.7 Review periodically the policy for recruitment, rotation and promotion of staff, reporting accordingly to the Board of the Company.

Board and CEO Appointments

4.8 Identify, evaluate and recommend, for the approval by the Board, candidates to fill vacancies in the board of directors of the Company or the boards of its subsidiary or associated companies or of any other company in which the Company has the right to appoint any member to its board of directors.

In identifying candidates the Committee shall:

a) Consider candidates from a wide range of backgrounds;

b) Pay due regard to the Fitness and Probity requirements and

c) Consider candidates on merit and against objective criteria, as defined in the relevant policy, with due regard to the benefits of diversity, taking care that appointees will have sufficient time to devote to the position.

4.9 Identify, evaluate and recommend, for the approval by the Board, candidates for the position of the CEO of the Company or its subsidiary companies or any other company in which the Bank has the right to appoint and/or recommend the CEO.

4.10 In its recommendation to the Board to appoint a candidate as Director or CEO, the Committee shall provide a full rationale of how it arrived at its decision. In addition the relevant discussions and accompanying justification for selecting / rejecting proposed candidates will be appropriately documented in the minutes of the Committee.

4.11 Prior to the appointment of a Director, the proposed appointee shall be required by the Nominations / Internal Governance Committee to disclose any other business interests that may result in a conflict of interest and be required to report any future business interests that could result in a conflict of interest.

4.12 The Committee is responsible for:

(a) assessing whether any interests or relationships declared by Members of the Board present an actual or potential conflict of interest and

(b) approving Members of the Board's requests related to directorships with other companies or intra-Group.

Appointment of the Direct Reports to the CEO

4.13 Evaluate and recommend, for the approval by the Board, the appointment of the direct Reports to the CEO, following a relevant recommendation by the CEO.

Fitness and Probity

4.14 The Committee shall reassess the fitness and probity of members and managers, on the basis of the assessment criteria included in the Directive on the Assessment of Fitness and Probity of Members of the Management Body and Managers of Authorised Credit Institutions of 2014 of the Central Bank of Cyprus, when events make reassessment necessary in order to verify the ongoing fitness and probity of the person in question, and taking into account the relevant provisions of the Directive on Governance Arrangements and Management of 2014. Reassessment may be limited to examining whether the person remains fit and proper taking into account the relevant event that has occurred.

4.15 If at any given time, persons who hold the post of an independent Director do not satisfy or seem not to satisfy any of the independence criteria due to developments, then the Nominations / Internal Governance Committee must address the issue immediately and proceed with a relevant recommendation to the Board as to the issue and as to the necessary remedial measures, including removing the said Member from the Board or redefining his/her role in the Board and/or appointing a new independent Director. The time period for implementing all necessary remedial measures should not exceed one (1) month. The said Member should be released from any of his/her duties as an independent Member of the Board from the date the non-compliance with the independence criteria is identified.

Control Functions

4.16 Review periodically, and at least annually, in collaboration with the Audit and Risk Management Committees, the composition, authority and independence of the Group Control Functions, reporting accordingly to the Board of the Company.

4.17 Following a relevant recommendation by the Audit Committee or Risk Management Committee accordingly, evaluate and recommend for the approval by the Board, the appointment of the Heads of Internal Control Functions.

Internal Governance Arrangements

4.18 Ensure effective internal governance arrangements are in place and evaluate the extent of compliance with the policies of internal governance as approved by the Board.

Committee Governance

4.19 The Committee shall review its Terms of Reference regularly, at least annually, to ensure continuing appropriateness. The reviews must be documented and include, where necessary, recommendations to the Board on revisions.

4.20 The Committee shall conduct a self-assessment and report its conclusions and recommendations for improvements and changes to the Board.

Annual General Meeting

4.21 The Chairperson of the Committee shall be available for personal, telephone, electronic or written communication, which shareholders of the Company may request, regarding issues concerning the work of the Committee. He/She shall also be available to answer any questions during the Annual General Meeting or any meeting for the purposes of briefing the shareholders of the Company. Information concerning the structure and work of the Committee shall also be given in the Annual Corporate Governance Report of the Board of Directors of Hellenic Bank Public Company Limited.

Reporting to the Central Bank of Cyprus

4.22 The Annual Evaluation Reports referred to in Paragraphs 4.1, 4.2, 4.3 and 4.11 shall be submitted to the Central Bank of Cyprus within three (3) months of the end of every year.

Job Descriptions

4.23 The Committee shall review and approve, where this is deemed necessary, the Job Description (roles, responsibilities, main duties, powers, etc.) of the Executive Members of the Board, the Chief Executive Officer, his/her direct reports and the Heads of the Control Functions.

5. Code of Corporate Governance

It is understood that the Nominations / Internal Governance Committee will operate strictly within the framework of the relevant provisions of the Code of Corporate Governance, as determined in Chapter A of the Code.

(15) Part D of the Code which refers to the Relations of the Company with its Shareholders

The Board of Directors of the Company utilises the occasions of the announcements of financial results, as well as of the Annual General Meeting of the Shareholders itself for organising analytical presentations of the Financial Statements. These are usually undertaken by the Chief Financial Officer and the Company's Executive Management for the benefit of shareholders, financial analysts, members of the Stock Exchange and representatives of the media.

Regarding the Annual General Meeting, the Company takes into consideration the relevant provisions of the legislation, the Company's Articles of Association and the Code.

Mr Constantinos Pittalis, Manager Investor Relations, has been appointed as Investor Relations Officer (tel. 22500794, e-mail: ir@hellenicbank.com), responsible for the communication between shareholders and the Company. Information concerning the Group is provided to shareholders, prospective investors, analysts and brokers in a prompt and unbiased manner.

(16) Rotating Directors eligible for Re-Election

Members of the Board retire on a rotating basis or retire according to the relevant provisions of the Company's Articles of Association and the relevant provisions of the Companies Law and the Code (at least every three years). The retiring Directors, who are eligible and will offer themselves for re-election at the Annual General Meeting of the Shareholders on 26th June 2019, are the following (brief curriculum vitae included):

(a) Stephen John Albutt
Born in 1968. Graduated from Wesley College in Perth, Australia and studied for a Bachelor of Commerce Degree at the University of Western Australia. A Chartered Accountant – member of the Institute of Chartered Accountants in England and Wales since 1994.

Commenced his career in 1989 at the international audit and financial advisory firm Arthur Andersen in Perth. He was transferred to London in the Andersen Financial Markets Division later that year, where he undertook audit and advisory work for various clients. In 1996, he joined investment bank BZW in London and Tokyo, as Manager Finance Global Projects before moving on to J Henry Schroder in London in 1997 as Manager in the Structured Products Team. In 2000, following Citi's acquisition of J Henry Schroder, he joined Citigroup Global Markets in London in the Corporate Equity Derivatives Team, where he established the European margin loan business and the synthetic convertible business. In 2007, he joined Morgan Stanley in Hong Kong, as Executive Director / Head of Structured Equity, establishing the Structured Equity Team in Asia within Investment Banking. Subsequently, in 2010, he joined Citigroup Global Markets in Hong Kong as Co-Head of Equity Structured Solutions, Asia Pacific, where he built Citi's structured equity franchise in Asia. He moved back to England in 2014 to pursue personal interests.

Was appointed Member of the Board of Directors of Hellenic Bank on 21 September 2016. He is the Chairman of the Remuneration Committee of the Bank's Board of Directors and a Member of the Audit Committee of the Bank's Board of Directors.

(b) Ioannis A. Matsis
Born in 1969. Graduated from the English School in Nicosia and studied Chemical Engineering (B.A., M.Eng.) at the University of Cambridge in the United Kingdom.

Between 2008 and April 2017 he was a Partner of Point Nine Limited, which he co-founded in 2008. Point Nine Ltd provides middle and back office outsourcing services and financial software to financial institutions in Europe and the United States of America.

He started his career in January 1994 at ING Barings. Between 1994 and 2008, he worked in the City of London. He was a Managing Director, Global Head of Structured Trading of Mizuho International plc from May 2003 until March 2008, where he built and managed the Structuring and Trading team for credit, interest rate and foreign derivative products. Between June 1997 and May 2003, he was Managing Director, Global Head of Credit Derivative Group at ING Barings. Between September 1996 and June 1997, he was a Vice-President, Structured Products Group at Chase Manhattan.

He was appointed as a Member of the Board of Directors of Hellenic Bank on 24 December 2013. He was the Chairman of the Risk Management Committee and he was also a Member of the Nominations / Internal Governance Committee of the Bank's Board of Directors.

He was appointed Executive Member of the Board of Directors of Hellenic Bank and Chief Executive Officer of the Group on 24 April 2017.

(c) Marianna Pantelidou Neophytou
Born in 1972. Graduated from the First Kykkos Lyceum in Nicosia and studied Economics at the University of Manchester in the United Kingdom. A Chartered Accountant – member of the Institute of Chartered Accountants in England and Wales. In her early career, she has worked for six years at the international audit and financial advisory firm Arthur Andersen in London and Boston, in the Financial Markets and the Asset Management Divisions respectively. Her clients included large international investment banks and asset managers.

She then joined the international credit rating agency Thomson Financial Bankwatch (acquired by Fitch Ratings), where she served as Vice President and was responsible for assessing banks and banking systems in Russia, South Africa, Greece and Cyprus.

In 1999 she became Manager, Investor Relations and then Manager, Group Strategy in the Bank of Cyprus. In 2012, she set up her own practice as a financial consultant in the private sector and she has advised the Ministry of Finance in banking sector issues following the Eurogroup decisions of March 2013. She has served as a member of the Council of Economic Advisors to the President of the Republic of Cyprus from April 2013 to August 2014.

At end-November 2013 she joined Wargaming Group Ltd and has served in a wide spectrum of posts. Today she serves in the post of Chief of Staff to the company's CEO.

She was appointed Member of the Board of Directors of Hellenic Bank on 24 December 2013. She is a Member of the Audit and Nominations / Internal Governance Committees of the Bank's Board of Directors.

(d) Dr Evripides A. Polykarpou
Born in 1962. Graduated from the Technical School in Nicosia and studied Business Administration at the University of

Colorado, Denver (B.Sc.) and at the National University, San Diego (M.B.A. in Financial Management) in the United States. He holds a Doctoral Degree in Educational Administration from the University of Middlesex (UK).

He served as a member of the Board of Directors of various public companies and as a member of the Board of the Cyprus Securities and Exchange Commission (2011-2013). He has been a faculty member of Cyprus College / European University since 1989. At the same institution, he has served in various management positions and in 2007 was appointed as Director of Administration and Human Resources. He has participated in several research and other projects funded by the European Union, the United Nations and local institutions. From September 2013 to August 2017 he was the Chief Operating Officer for the MENA region of Laureate International Universities.

He was elected Member of the Board of Directors of Hellenic Bank on 28 May 2014 and appointed Senior Independent Director on 27 January 2015. From 24 May 2017 to 11 July 2018, he was fulfilling the duties of the Chairperson of the Board of Directors of the Bank. He is the Chairman of the Audit Committee of the Bank's Board of Directors and a Member of the Nominations / Internal Governance Committee of the Bank's Board of Directors.

Nicosia, 24 April 2019

REMUNERATION POLICY REPORT FOR THE YEAR 2018

INTRODUCTION

The Board of Directors of Hellenic Bank Public Company Limited ("the Company" or the "Bank"), in compliance with the provisions of the Code of Corporate Governance, published by the Cyprus Stock Exchange (5th revised edition - January 2019) and particularly Appendix 1 of the Code, incorporates the present Remuneration Policy Report in the Company's 2018 Annual Report. The Company's 2018 Annual Report is published in the Company's website.

REMUNERATION COMMITTEE

The primary role of the Committee is to define and recommend for approval by the Board of Directors the Remuneration Policyand the Remuneration Principles of the Group that are aligned to the Group's strategic objectives and values. The Committee meets whenever it is necessary to fix or review the remuneration of Executive and non-Executive Members of the Board of Directors ("the Board"), the Chief Executive Officer, the Company Secretary, the Officers reporting directly to the Chief Executive Officer and the Heads of the Control Functions. After considering all relevant parameters and data, it makes relevant recommendations to the Board for making decisions, in the absence of the Executive Member(s) of the Board involved or other Officers involved. It is also engaged in reviewing and making proposals on the remuneration of the Executive and non-Executive Members of the Board of Directors of the subsidiaries or associated companies of the Group. The Committee's suggestions and the Group's Remuneration Policy take into consideration the relevant responsibilities, workload, qualifications, know-how, academic background, experience, individual performance, remuneration of comparable positions in the market, especially in areas where the Group is active, remuneration at other levels in the Group as well as, non-financial criteria e.g. compliance with applicable rules and procedures. The Committee's aim is to attract and retain good quality officers at Executive and General Management levels in order to better serve the interests of the Group as well as those of its Shareholders and other stakeholders.

Each year, the Remuneration Committee proposes to the Board of Directors the Annual Remuneration Policy Report, as part of the Annual Report of the Company, which is submitted to the Annual General Meeting of the Shareholders for approval. The Committee also reviews and approves the Disclosure of Information regarding the Annual Remuneration of the Directors, which is prepared by Human Resources for inclusion in the notes to the annual accounts of the Company and the Remuneration Policy Report itself.

The composition of the Remuneration Committee during 2018 and until the date of this Report is as follows:

Chairperson: Stephen John Albutt
(Chairman from 20th August 2018)
Dr Evripides A. Polykarpou
(until 20th August 2018)

Members: David Whalen Bonanno
Christodoulos A. Hadjistavris
Lambros Papadopoulos (until 11th July 2018)
Irena A. Georgiadou (from 20th August 2018)
Andrew Charles Wynn (from 20th August 2018).

The terms of reference of the Remuneration Committee appear below:

Terms of Reference of the Remuneration Committee

1. Role of the Remuneration Committee

The Remuneration Committee was established to ensure that Hellenic Bank Public Company Limited ("the Company") complies with the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus' Directives and the Cyprus Stock Exchange's Code of Corporate Governance and is responsible for the evaluation of proposals regarding remuneration matters, including those proposals which have an implication on the risk and risk management of the Group.

The primary role of the Committee is to define and recommend for approval by the Board of Directors of the Company ("the Board") the Remuneration Policy, including pensions and variable compensation, and the Remuneration Principles for the Group that are aligned to the Group's strategic objectives and values. Also, the Committee prepares proposals for the approval by the Board on the remuneration packages, including retirement and other benefits, of Executive and non-Executive Members of the Board or the Boards of Subsidiaries, the Company Secretary, as well as of the Chief Executive Officer, his/her direct reports and the Heads of the Control Functions (Key Function Holders).

2. Composition of the Remuneration Committee

The Committee is appointed by the Board and consists of three to six exclusively non-Executive Directors who shall exercise competent and independent judgment on remuneration policies and practices. The majority of the Members of the Committee must be independent non-Executive Members of the Board.

Members of the Remuneration Committee can be members of only one other Board Committee.

The Chairperson of the Committee is appointed by the Board.

The term-in-office of the Members of the Committee is decided by the Board.

Committee Members shall not hold any other posts or positions or conduct transactions which could be considered to be in conflict with the Terms of Reference of the Committee.

3. Meetings / Decision-making Process of the Remuneration Committee

The Committee shall meet whenever necessary and at least twice a year.

The majority of Committee Members shall comprise a quorum. A majority of Committee Members shall be considered to be the next integral number of one half of the Members. The decisions of the Committee are taken by majority voting. In the event of an equality of votes, the Chairperson of the meeting shall not have a second or casting vote and the item in discussion must be escalated to the Board of Directors.

The Company Secretariat must be closely involved in the preparation of the meeting's agenda and ensures it is distributed, including any supporting papers, where relevant, at least three (3) business days in advance of the meeting.

The Company Secretariat must ensure minutes of the Committee's meetings and decisions are kept in accordance with Paragraph 7(4) of the Governance and Management Arrangements Directive of 2014 of the Central Bank of Cyprus and circulate them to the Board.

The Committee has the approval of the Board to obtain independent professional advice whenever it deems this necessary.

The Committee may formally invite to any of its meetings, for a specific item or items on the agenda, any person who may contribute towards that specific item. Such person is present only during the discussion of the specific item and leaves the meeting room immediately after without any participation in the decision-making process.

4. Duties and Responsibilities of the Remuneration Committee

Remuneration Framework

4.1 The Committee shall submit to the Board, within terms of reference agreed upon and without the presence of the party interested in their evaluation, proposals concerning the framework and level of remuneration (including fixed pay, performance-related pay, bonuses, pension rights and any compensation payments, share options, etc.) of Executive and non-Executive Members of the board of the Company or its subsidiary companies, the Company Secretary, the Chief Executive Officer of the Company or its subsidiary companies, his/her direct reports and the Heads of the Control Functions (Key Function Holders).

The Committee will take into consideration factors such as the relevant responsibilities, workload, qualifications, know-how, academic background, experience, individual performance, remuneration of comparable positions in the market, especially in areas where the Group is active, remuneration in other levels of the Group and non-financial criteria e.g. compliance with applicable rules and procedures. It will also consider the need to attract and retain the most suitable Directors (Executive and non-Executive) / Senior Executives in the Company.

4.2 During the formulation of the above-mentioned proposals, the Committee should take care so that:

(a) these proposals are consistent with the relevant legal and regulatory requirements and

(b) the performance-related systems:

- should not extend any benefits before the gains expected by the Company materialise in a satisfactory degree
- should not include non-Executive Members of the Board among the beneficiaries
- should specify targets and evaluation criteria so that the remuneration of the Company Executives is properly aligned with the long-term interests of the shareholders, investors, other stakeholders and the public interest, the Company's business objectives and strategies with a view of delivering sustainable value and maintaining a sound capital base, always within the risk framework of the Company.

4.3 During the preparation of its proposals, the Committee shall provide the opportunity to the Chairperson and the Chief Executive Officer to express an opinion with regard to its proposals concerning the salaries of other Executive Board Members. It should also have access to professional advice, both internal and external.

Remuneration Policy

4.4 The Committee shall assist the Board in fulfilling its duty in ensuring that the remuneration policy and practices are consistent with the risk appetite of the Company, prevent conflicts of interest and promote sound and effective risk management.

4.5 The Committee shall ensure that staff members, who are involved in the design, review and implementation of the remuneration policies and practices, have relevant expertise and are capable of forming independent judgment on the suitability of the r emuneration policies and practices, including their suitability for risk management. Independent external advice may also be sought.

4.6 The Committee shall assist, through relevant studies / proposals, the Board in fulfilling its duties in approving and periodically reviewing the Principles that govern the Group Remuneration Policy and the Policy itself and in overseeing the latter's implementation.

4.7 The Committee shall ensure that Internal Control Functions are involved in the design, review and implementation of the Remuneration Policy.

4.8 In addition to setting the Remuneration Policy, the Committee shall:

a. Determine and periodically review target and measures to be applied for variable compensation, liaising with the Risk Management Committee of the Board and

b. Set budget for annual staff increases.

4.9 The Committee shall be actively involved in the identification process of staff whose professional activities have a material impact on the Bank's risk profile, in line with its responsibilities for the preparation of decisions regarding remuneration In doing so, the Remuneration Committee has delegated the preparation of the list of Identified Staff to the Risk Management Unit, with the support of Human Resources.

4.10 The Committee shall ensure that the Remuneration Policy and Practices are subject to a central and independent review by the Internal Audit Unit at least on an annual basis.

Remuneration of Non-Executive Members of the Board

4.11 In relation to the level of remuneration of the non-Executive Members of the Board, the Committee shall take the following into consideration:

a. The available time that the Members have to prepare for attending meetings,

b. The responsibilities assumed by each Member,

c. The non-correlation of remuneration to the profitability of the Company and

d. The non-participation in any insurance or pension plan.

The proposal of the Remuneration Committee will be submitted by the Board to the Shareholders' General Meeting for approval.

Readjustment of Benefits

4.12 The Committee shall submit to the Board proposals for the determination of each readjustment of benefits of the Members of the Board, the Chief Executive Officer and his/her direct reports, being sensitive to the terms of remuneration and conditions of employment at other levels of the Group.

External Advice

4.13 The Committee shall, when using the services of a consultant to obtain information on market standards for remuneration systems, ensure that this consultant does not also give advice to the Human Resources Department or the Executive Members of the Board.

Control Functions

4.14 The Committee reviews the remuneration of the Heads of the Control Functions for submission to the Board for its approval, following the recommendations of the Committees of the Board, as per reporting lines of the Control Functions.

The remuneration of employees in Control Functions is predominantly fixed, to reflect the nature of their responsibilities.

In this respect, the maximum award for variable pay for members of Control Functions has been set at 50% of annual basic salary.

In addition, the remuneration of these employees is linked to the performance of their Functions and is not dependent on the performance of the units they are tasked with controlling, to avoid any conflict of interest.

Key Function Holders

4.15 Remuneration is reviewed and agreed by the Remuneration Committee for submission to the Board for its approval, following input from the Risk Management Unit (where required).

The Chief Executive Officer makes recommendations to the Remuneration Committee regarding the remuneration of Key Function Holders, other than members of the Control Functions, the Company Secretary and Executive Members of the Board.

The Committees of the Board, as per the reporting lines of the Control Functions, make recommendations to the Remuneration Committee regarding the remuneration of Heads and Senior Staff (if deemed appropriate) of the Control Functions.

Remuneration Reports / Statements

4.16 The Committee shall prepare, for submission to the Board, the Annual Remuneration Policy Report, which will comprise part of or be attached to the Annual Report of the Company.

4.17 The Committee shall review and approve the Annual Remuneration Statement, prepared by Group Human Resources for inclusion in the Company's annual Accounts or in the notes to the annual Accounts, in accordance with Appendix 2 of the Code of Corporate Governance and the relevant Cyprus Central Bank's Directives / Guidelines.

4.18 The Committee shall review and approve the content of any resolutions submitted for approval at the General Meeting of the shareholders, which will be prepared by the Company Secretariat in cooperation with the Group's Legal Advisors, in accordance with Appendix 3 of the Code of Corporate Governance, and concern possible plans for the remuneration of Executive Members of the Board in the form of shares, share warrants or share options and of any resolutions submitted for approval at the General Meeting of the shareholders, which will be prepared by the Company Secretariat in cooperation with the Group's Legal Advisors concerning possible plans for remuneration of employees of the Group in the form of shares, share warrants or share options.

Committee Governance

4.19 The Committee shall review its Terms of Reference at least annually, to ensure continuing appropriateness. The reviews must be documented and include, where necessary, recommendations to the Board on revisions.

4.20 The Committee shall conduct a self-assessment and report its conclusions and recommendations for improvements and changes to the Board.

Annual General Meeting

4.21 The Chairperson of the Committee shall be available for personal, telephone, electronic or written communication, which shareholders of the Company may request, regarding issues concerning the work of the Committee. He/She will also be available to answer any questions during the Annual General Meeting or any meeting for the purposes of briefing shareholders of the Company. Information concerning the structure and work of the Committee will also be given in the Annual Corporate Governance Report of the Board of Directors of Hellenic Bank Public Company Limited.

5. Code of Corporate Governance

It is understood that the Remuneration Committee will act strictly within the framework of the relevant provisions of the Code of Corporate Governance, as determined in Chapter B of the Code.

DIRECTORS' REMUNERATION POLICY

The Remuneration Policy for the Directors of the Company remains the same as it was when approved in the Annual General Meeting of the Shareholders held on 11th July 2018, as shown below. A relevant proposal will be submitted by the Board of Directors to the Annual General Meeting of the Shareholders for approval.

The remuneration of the Members of the Board of Directors for the year 2018 was fixed as follows:

(i) Chairperson: €140.000
(ii) Vice-Chairperson: €50.000
(iii) Senior Independent Director: €50.000
(iv) Board Members: €45.000.

Furthermore, the remuneration of the Members of the following Committees of the Board of Directors for the year 2018 was fixed as follows:

(i) Chairperson of the Audit Committee: €45.000
(ii) Chairperson of the Risk Management Committee: €45.000
(iii) Chairperson of the Remuneration Committee: €15.000
(iv) Chairperson of the Nominations / Internal Governance Committee: €15.000
(v) Member of the Audit Committee: €20.000
(vi) Member of the Risk Management Committee: €20.000
(vii) Member of the Remuneration Committee: €10.000
(viii) Member of the Nominations / Internal Governance Committee: €10.000.

In relation to the Integration Committee of the Board of Directors, which has been formed to ensure the effective oversight and input of the Board in smoothly implementing the integration plan relating to the acquisition of certain assets and liabilities from the ex Cyprus Cooperative Bank Limited, the remuneration of the Committee's Chairperson and Members was fixed in the Extraordinary General Meeting of the Shareholders held on 22nd August 2018 as follows: (i) Chairperson of the Integration Committee: €45.000 per year; (ii) for each member of the Integration Committee: €20.000 per year.

In addition, according to Article 88 of the Company's Articles of Association, the Board of Directors may also be paid all travelling, hotel and other expenses properly incurred by them in attending and returning from meetings of the Directors or in connection with the business of the Company.

The Remuneration Policy for the Directors of the Company recognises the significant increase in the responsibilities undertaken and the workload of the Board of Directors, as well as of its Committees, arising due to the increased regulatory requirements, the time commitment required by the Members of the Board of Directors to devote to the Company for Board matters and for matters of the Board's Committees, the substantial risks based on the conditions prevailing in the financial environment that the Group is operating and the desire to attract and retain Board Members with high qualifications, know-how, experience, academic background and performance.

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTOR / CHIEF EXECUTIVE OFFICER

Mr Ioannis A. Matsis, a Non-Executive Director of the Company, was appointed Executive Member of the Board of Directors of Hellenic Bank and Chief Executive Officer of the Group on 24th April 2017.

Mr Matsis is rewarded with a remuneration package based on a contract of employment, the terms of which take into account the relevant provisions of the existing Code of Corporate Governance published by the Cyprus Stock Exchange, the Central Bank of Cyprus' Governance Directive, the European Banking Authority Guidelines on Sound Remuneration Policies that came into force on 1st January 2017 and the Group's Remuneration Policy. The remuneration package includes a non-variable annual salary and variable remuneration.

The non-variable annual salary is paid monthly and takes into consideration his knowledge, experience, academic background, expertise and leadership skills. In addition, it takes into consideration the offered services, the time devoted to the Group and the scope of undertaken responsibilities, the benefits and remuneration of officials in corresponding positions in other comparable organisations and the market at the specific moment in time when the contract was prepared. The remuneration package also includes fringe benefits such as participation in a Medical Plan and Accident-related dental coverage Plan for the employee and his family, life and permanent disability insurance and accident cover whilst on the Company's business as per the Company's policy, use of a company car, payment by the Company of all expenses in connection with such use and driver.

In addition, the employment contract of Mr. Matsis provides that he might be entitled to be paid additional variable performance-related remuneration upon the signing of a relevant Schedule to his Employment Agreement. The variable remuneration will be in line with the provisions of the Group's Remuneration Policy, applicable legislation, the regulations of the Central Bank of Cyprus ("CBC") and/or the European Central Bank ("ECB"), the Governance Directive issued by the Central Bank of Cyprus and the Corporate Governance Code published by the Cyprus Stock Exchange.

In relation to the variable remuneration of the Executive Director / Chief Executive Officer, the following Resolutions were approved at the Annual General Meeting of the Shareholders of the Company, held on 24th May 2017:

"(A) THAT the Board of Directors (or a duly authorised Committee of the Board of Directors) be and is hereby authorised to exercise all powers of the Bank to issue and allot to the Chief Executive Officer of the Bank (the "Chief Executive Officer") up to €200.000 worth of ordinary shares of the Bank of nominal value of €0,50 (the "New Shares") for every twelve months of his employment as Chief Executive Officer, as the Board of Directors (or a duly authorised Committee of the Board of Directors) may, in its sole and unfettered discretion determine; provided that:

(i) such New Shares shall form part of the Chief Executive Officer's variable remuneration package;

(ii) the issue of such New Shares will be based upon such performance criteria as the Board of Directors (or a duly authorised Committee of the Board of Directors) of the Bank may, from time to time, determine and the New Shares shall be issued in a manner which is consistent with the provisions of the Directive issued by the Central Bank of Cyprus to Credit Institutions on Governance and Management Arrangements of 2014, as the same may be amended from time to time;

(iii) the issue price per New Share shall be equal to the higher of (a) the nominal value per New Share and (b) its market price or its fair value on the date of its award (as set out in the European Banking Authority Guidelines on Sound Remuneration Policies, as the same may be amended or replaced from time to time) to the Chief Executive Officer; and

(iv) this authority shall expire on the date being five years from and including the date of approval of this resolution unless extended by the General Meeting of the Bank.

(B) THAT any pre-emptive and other rights the Bank's

Shareholders may have by operation of law and/or pursuant to the Articles of Association of the Bank and/or otherwise in connection with the authority conferred on the Board of Directors (or a duly authorised Committee of the Board of Directors) for the issue and allotment of shares in the Bank as contemplated in resolution 6(A) above or the issue of shares in the Bank pursuant to such authority be and are hereby irrevocably and unconditionally waived."

Mr Matsis' contract has a five-year duration and can be renewed for a further period of five years if the Company provides to the Employee a written request to renew the agreement at least twelve months prior to its expiry and he accepts such request. In such case, the contract would be renewed on the same terms other than salary, which will be re-negotiated between the parties.

In the event the five-year term of the Executive Director's / Chief Executive Officer's Agreement is completed and the Agreement is not renewed, the employment will be lawfully terminated and the Company will pay the Employee all remuneration, including, without limitation, the annual salary, additional remuneration and fringe benefits the Employee enjoyed during his employment. Any benefits that have not vested at the time of termination will be paid by the Company to the Employee when they vest and become payable.

If the Employment Agreement is terminated by the Company during the first three years of the Employee's employment; or in the event of demotion of the Employee from the position of CEO, for any reason (except due to his disability), including, without limitation, due to sale of the Company or merger or change of its shareholding or structure or due to redundancy that result to such demotion from the position of CEO, within the first three years of his employment, the Employee shall be entitled to (a) notice, the period of which shall be determined in accordance with Law 24/1967; (b) such shares and other benefits to which the Employee would be entitled under the Company's policies and procedures and/or Remuneration Policy (any benefits that have not vested at the time of termination will be paid by the Company to the Employee when they vest and become payable); and (c) an amount equivalent to three Annual Salaries less any Annual Salaries already received including any salary received during notice period (in effect the Company guarantees to the Employee that he would be put in the position as if he has worked and was paid the annual salary for three full years).

In the event the Agreement is terminated by the Company after the third anniversary of the employment and prior to its expiry, for any lawful reason requiring that the Company gives the Employee notice to terminate the employment according to Law 24/1967, the Company will give the Employee six months' paid notice, unless a longer notice is required under applicable law, in which case such longer notice shall be given.

In the event the Agreement is terminated by the Company prior to its expiry following (i) a decision by the CBC or ECB of the Employee's unfitness pursuant to relevant directives and/or laws and/or regulations; or (ii) where the Employee ceases to be a Member of the Board due to the conviction of a serious criminal offence for which the Employee is sentenced to imprisonment (including a suspended sentence), the Company may terminate the employment forthwith and no notice will be provided to the Employee unless if the decision by the CBC or ECB of the Employee's unfitness provides for a notice period such notice period will be provided by the Company to the Employee.

In the event the Agreement is terminated by the Employee for any reason prior to its expiry, the Employee will give the Company six months' notice. If the Company elects to stop the employment of the Employee prior to the expiry of the six-month period, it will be obligated to remunerate the Employee fully until the end of the six-month period.

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTOR

Mr Lars Kramer, who is the Chief Financial Officer of the Group since 3rd April 2017, was appointed as an Executive Member of the Board of Directors of the Bank with effect from 10th July 2017.

Under his contract of employment, Mr Kramer is rewarded with a remuneration package based on a contract of employment, the terms of which take into account the relevant provisions of the existing Code of Corporate Governance published by the Cyprus Stock Exchange, the CBC Governance Directive, the European Banking Authority Guidelines on Sound Remuneration Policies that came into force on 1st January 2017 and the Group's Remuneration Policy. The remuneration package includes a non-variable annual salary and variable remuneration.

The non-variable annual salary is paid monthly and takes into consideration his knowledge, extensive experience in senior Finance-related positions in a large multinational organisation, academic background, expertise and management skills. In addition, it takes into consideration the offered services, the time devoted to the Group and the scope of undertaken responsibilities, the benefits and remuneration of officials in corresponding positions in other comparable organisations and the market at the specific moment in time when the contract was prepared.

The Company does not make any contributions towards a retirement plan nor provides for the Employee with insurance, medical cover or company vehicle.

In addition, the Executive Director / Chief Financial Officer will be an "Eligible Employee" for the purposes of the long-term incentive plan being put in place by the Company as such plan was approved by the Company's Annual General Meeting of the Shareholders in May 2016. The plan being put in place has been approved for a period of five years and it includes the potential of making awards up to a maximum of 100% of an Eligible Employee's base salary. The making of and amount of any such award is subject to the Company's discretion.

The variable remuneration under the plan will be in line with the provisions of the Group's Remuneration Policy, applicable legislation, the regulations of the Central Bank of Cyprus and/or the European Central Bank, the CBC Governance Directive, the European Banking Authority Guidelines on Sound Remuneration Policies and the Corporate Governance Code published by the Cyprus Stock Exchange.

The Executive Director / Chief Financial Officer's contract is not for a fixed term duration and it can be terminated (i) by the Employee providing three month's written notice; (ii) the Company providing six month's written notice.

The Employment Agreement may be terminated at any time during the employment term by the Company pursuant to the Termination of Employment Law, Law 24/1967 as amended from time to time and in line with Company's relevant policy and Central Bank of Cyprus' Directives.

The changes in the cumulative retirement benefits of the Executive Directors for the year are disclosed in Note 41 to the Accounts contained in this Annual Report.

REMUNERATION POLICY

For the determination of the variable remuneration of the Executive Members of the Board of Directors, the Board, on the basis of the recommendations of the Remuneration Committee, takes into account:

(a) The Group results, taking into account the financial conditions of the market in which these results were achieved and the risks assumed;

(b) The performance of the Executive and the Division(s) under his/her responsibility, bearing in mind both financial and non-financial criteria such as compliance with the Bank's risk appetite, procedures and policies; and

(c) The long-term interests of the Group.

The Remuneration Policy for the Executive and Non-Executive Members of the Board was codified for the first time in the Group's Remuneration Policy, which was approved by the Board of Directors, following a proposal by the Remuneration Committee on 25th February 2010, on the basis of the provisions of the amending Directive of the Central Bank of Cyprus "Framework of Principles of Operation and Criteria of Assessment of Banks' Organisational Structure, Internal Governance and Internal Control Systems" (2009).

The Remuneration Policy for the Executive and Non-Executive Members of the Board was amended and incorporated in the Group's Remuneration Policy, which was approved by the Board of Directors as recommended by the Remuneration Committee on 28th February 2012, based on the revision of the 3rd edition of the Corporate Governance Code as published by the Cyprus Stock Exchange in March 2011. Further amendment followed based on the Directive of the Central Bank of Cyprus for the "Calculation of the Capital Requirements and Large Exposures of Banks of 2006 to 2011" and the Guidelines of the Committee of European Banking Supervisors (European Banking Authority) on Remuneration Policies and Practices, which was approved by the Board of Directors as recommended by the Remuneration Committee on 5th November 2012. Further amendment of the Group's Remuneration Policy followed on 6th November 2014 and 9th June 2015, based on the provisions of the Central Bank Directive on "Governance and Management Arrangements in Credit Institutions" of 2014, Articles 3 and 4 of Regulation (EU) No. 604/2014 and the 4th Edition of the Corporate Governance Code published by the Cyprus Stock Exchange (4th revised edition – April 2014). The Group's Remuneration Policy was extensively revised in December 2018 based on the revision of the European Banking Authority Guidelines on Sound Remuneration Policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) No 575/2013, effective as at 1st January 2017. The revised Policy was approved by the Board of Directors, following the recommendation of the Remuneration Committee, on 14th December 2018.

The Group's Remuneration Policy is reviewed annually by the Board of Directors, further to recommendation by the Remuneration Committee, in order to ensure that it is in line with the Group's prevailing strategic targets and to prevent the introduction of incentives that lead to excessive risk assumption or conflicts of interest. The Policy is also evaluated in order to determine whether it corresponds to the prevailing conditions of the market and the Group and whether these justify the Policy's review. The review is conducted with the participation of the Risk Management Unit, the Compliance Unit and other Head Office Units. The Group's Remuneration Policy is audited annually by the Internal Audit Unit.

Related to the Remuneration Policy for the Executive and Non-Executive Members of the Board and Senior Managers for 2018 is the disclosure of information in the notes to the Accounts included in this Annual Report (Note 41) as well as the analytical Disclosure of Information Regarding the Remuneration of the Directors for the year 2018 shown below.

The Board of Directors submits this Remuneration Policy Report to the Annual General Meeting of the Shareholders and unanimously recommends its approval.

Nicosia, 24 April 2019

DISCLOSURE OF INFORMATION REGARDING THE REMUNERATION OF DIRECTORS FOR THE YEAR 2018

	Remuneration for services	Remuneration for participation in the Board of Directors and its Committees	**Total remuneration for services**	Remuneration and benefits from companies of the same Group of companies	Remuneration in the form of profit and/ or bonus distribution	Assessment of the value of the benefits that are considered to form remuneration	**Total remuneration and benefits**	Annual increase in the total retirement benefits	Consideration for terminating the contract of employment
	€	€	**€**	€	€	€	**€**	€	€
Executive Directors									
Ioannis A. Matsis	485.000	45.000	**530.000**	0	0	20.154	**550.154**	0	0
Lars Kramer	452.900	45.000	**497.900**	0	0	0	**497.900**	0	0
	937.900	90.000	**1.027.900**	0	0	20.154	**1.048.054**	0	0
Non-Executive Directors									
Youssef A. Nasr	0	72.247	**72.247**	0	0	0	**72.247**	0	0
Irena A. Georgiadou	0	94.685	**94.685**	0	0	0	**94.685**	0	0
Marinos S. Yannopoulos	0	77.343	**77.343**	0	0	0	**77.343**	0	0
Dr Evripides A. Polykarpou	0	133.110	**133.110**	0	0	0	**133.110**	0	0
Marianna Pantelidou Neophytou	0	75.000	**75.000**	0	0	0	**75.000**	0	0
David Whalen Bonanno	0	65.000	**65.000**	0	0	0	**65.000**	0	0
Christodoulos A. Hadjistavris	0	75.000	**75.000**	9.000	0	0	**84.000**	0	0
Andreas Christofides	0	85.000	**85.000**	0	0	0	**85.000**	0	0
Lambros Papadopoulos	0	52.603	**52.603**	0	0	0	**52.603**	0	0
Andrew Charles Wynn	0	93.671	**93.671**	0	0	0	**93.671**	0	0
Stephen John Albutt	0	76.836	**76.836**	0	0	0	**76.836**	0	0
Demetrios Efstathiou	0	75.000	**75.000**	9.000	0	0	**84.000**	0	0
	0	975.495	**975.495**	18.000	0	0	**993.495**	0	0
Total	**937.900**	**1.065.495**	**2.003.395**	**18.000**	**0**	**20.154**	**2.041.549**	**0**	**0**

independent auditors' report and financial statements

CONTENTS

MANAGEMENT REPORT 31
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED 76
CONSOLIDATED INCOME STATEMENT 82
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 83
CONSOLIDATED STATEMENT OF FINANCIAL POSITION 84
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 85
CONSOLIDATED STATEMENT OF CASH FLOWS 87
INCOME STATEMENT 88
STATEMENT OF COMPREHENSIVE INCOME 89
STATEMENT OF FINANCIAL POSITION 90
STATEMENT OF CHANGES IN EQUITY 91
STATEMENT OF CASH FLOWS 93
NOTES TO THE FINANCIAL STATEMENTS 94
1. INCORPORATION AND PRINCIPAL ACTIVITY 94
2. REPORTING GROUP STRUCTURE 94
3. SIGNIFICANT ACCOUNTING POLICIES 94
3.1 Basis of preparation 94
3.2 Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations 95
3.3 Basis of consolidation 98
3.4 Foreign currency 99
3.5 Segment reporting 100
3.6 Turnover 100
3.7 Interest income and expense 100
3.8 Fee and commission income and expense 100
3.9 Dividend income 101
3.10 Income from hire purchase 101
3.11 Investment property rental income 101
3.12 Profit/(loss) from the disposal of property held for sale 101
3.13 Employee retirement benefits 101
3.14 Income tax 101
3.15 Special Levy 102
3.16 Financial instruments 102
3.16.1 Classification and Measurement of financial assets and liabilities 102
3.16.2 Reclassification of financial assets and liabilities 104
3.16.3 Derecognition of financial assets and financial liabilities 104
3.16.4 Impairment of financial assets 105
3.17 Financial instruments (policy applicable before 1 January 2018) 108
3.18 Impairment 111
3.19 Financial guarantees and loan commitments 112
3.20 Hedge Accounting 113
3.21 Cash and cash equivalents 113
3.22 Repurchase agreements 113
3.23 Indemnification Asset 113
3.24 Operating leases 114
3.24.1 Group as lessee 114
3.24.2 Group as lessor 114
3.25 Property, plant and equipment 114
3.26 Property revaluation reserve 115
3.27 Investment property 115
3.28 Stock of properties held for sale 115
3.29 Assets held for sale 115
3.30 Intangible assets 115
3.31 Share capital 117
3.32 Own shares reserve 117
3.33 Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings 117
3.34 Provisions to cover credit risk resulting from commitments and guarantees 117
3.35 Comparatives 118
4. IFRS 9 TRANSITION IMPACT ANALYSIS 118
4.1 Changes in accounting policies and impact of adoption 118
5. USE OF ESTIMATES AND JUDGEMENTS 122
5.1 Measurement of expected credit loss (ECL) allowance 122
5.2 Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings 124
5.3 Impairment of goodwill and investments in subsidiaries and associated companies 124
5.4 Impairment of other intangibles 124
5.5 Fair value of investments 125
5.6 Business Models and SPPI 125
5.7 Impairment of available for sale and held to maturity investments 125
5.8 Negative goodwill 125
5.9 Indemnification Asset 125
5.10 Properties held for sale/stock of properties held for sale 126
5.11 Fair value of properties held for own use and investment properties 126
5.12 Taxation 127
6. INTEREST INCOME 128
7. INTEREST EXPENSE 128
8. FEE AND COMMISSION INCOME 128
9. FEE AND COMMISSION EXPENSE 129
10. NET GAINS ON DISPOSAL AND REVALUATION OF FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS 129
11. OTHER INCOME 129
12. STAFF COSTS 130
13. ADMINISTRATIVE AND OTHER EXPENSES 130
14. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK 132
15. TAXATION 133
16. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE 134
17. CASH AND BALANCES WITH CENTRAL BANKS 135
18. PLACEMENTS WITH OTHER BANKS 135

CONTENTS

19.	LOANS AND ADVANCES TO CUSTOMERS	136
20.	DEBT SECURITIES	149
21.	HEDGE ACCOUNTING	150
	21.1. Risk Management Strategy	150
	21.2. Hedging Relationship	150
	21.3. Hedging Effectiveness	150
22.	RECLASSIFICATION OF DEBT SECURITIES	152
23.	EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS	152
24.	INVESTMENTS IN SUBSIDIARY COMPANIES	154
25.	INVESTMENT IN ASSOCIATE COMPANY	156
26.	PROPERTY, PLANT AND EQUIPMENT	158
27.	INTANGIBLE ASSETS	159
28.	DEFERRED TAX ASSET	161
29.	OTHER ASSETS	163
30.	DEPOSITS BY BANKS	166
31.	CUSTOMER DEPOSITS AND OTHER CUSTOMER ACCOUNTS	166
32.	DEFERRED TAX LIABILITY	167
33.	OTHER LIABILITIES	168
34.	LOAN CAPITAL	169
35.	SHARE CAPITAL	174
36.	REVALUATION RESERVES	175
37.	CONTINGENT LIABILITIES AND COMMITMENTS	176
38.	DERIVATIVES	177
39.	CASH AND CASH EQUIVALENTS	178
40.	DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE BANK	178
41.	RELATED PARTY TRANSACTIONS	179
42.	SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL	181
43.	FAIR VALUE MEASUREMENT	181
44.	SEGMENTAL ANALYSIS	185
45.	CATEGORISATION OF FINANCIAL INSTRUMENTS	187
46.	ECONOMIC ENVIRONMENT	189
47.	BANK RECOVERY AND RESOLUTION DIRECTIVE (BRRD)	190
48.	DEPOSIT INSURANCE SCHEMES	191
49.	SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES	192
50.	2018 EU-WIDE STRESS TEST	197
51.	RISK MANAGEMENT	197
	51.1. Introduction and overview	197
	51.2. Risk Management	197
	51.3. Credit risk	198
	51.4. Market and Liquidity Risks	206
	51.5. Operational risk	217
	51.6. Capital management	219
52.	EVENTS AFTER THE REPORTING PERIOD	223
	DECLARATION BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BANK OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE FINANCIAL STATEMENTS	225
	DEFINITIONS OF ALTERNATIVE PERFORMANCE INDICATORS	226
	REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE FOR THE YEAR 2018	44
	REMUNERATION POLICY REPORT FOR THE YEAR 2018	64

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the accompanying consolidated financial statements of **Hellenic Bank Public Company Limited** (the "Bank") and its subsidiaries (the "Group"), and separate financial statements of the Bank which are presented on pages 82 to 224 and comprise the consolidated statement of financial position of the Group and the statement of financial position of the Bank as at 31 December 2018 and the consolidated income statement, statements of comprehensive income, changes in equity and cash flows of the Group, and the income statement and statements of other comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2018, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "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 *"Auditors' responsibilities for the audit of the consolidated and separate financial statements"* section of our report. We remained independent of the Bank throughout the period of our appointment in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants ("IESBA Code"), and the ethical requirements in Cyprus that are relevant to our audit of the consolidated and separate financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Impairment of loans and advances to customers

Refer to note 19 to the financial statements

The key audit matter

During the year, impairment loss allowance on loans and advances to customers increased from €1.288.175m at 31 December 2017 to €1.352.088m at 31 December 2018.

The Group adopted IFRS 9 Financial Instruments from 1 January 2018. IFRS 9 is a new and complex accounting standard which requires management to estimate expected credit losses (ECL) on financial instruments, which involves significant judgement and estimates.

The key areas where we identified higher levels of judgement and assumptions, and therefore placed greater level of audit focus in the estimation of IFRS 9 impairment loss allowance are:

- *Significant increase in credit risk (SICR):* the criteria selected to identify a significant increase in credit risk is a key area of judgement in the ECL calculation since the application of these criteria will determine whether a 12 month or a lifetime ECL allowance is recognised.

- *ECL models:* the IFRS 9 introduces new models, which are inherently judgemental, to estimate ECL and involve determining probability of default (PD), loss given default (LGD) and exposure at default (EAD).

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

- *Macroeconomic scenarios to the ECL estimate:* IFRS 9 requires the Bank to incorporate forward-looking information into estimating ECL. This involves judgement in determining the macroeconomic scenarios used and the weightings applied to them.

As a result of these matters, we determined that impairment of loans and advances to customers is a key audit matter.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process.
- We tested the design, implementation and operating effectiveness of the key controls over the completeness and accuracy of key data inputs into the IFRS 9 impairment models and individual provisioning tools.
- We evaluated the management review process and relevant controls over the ECL calculations, evaluation and authorisation of the impairment loss allowance.
- We assessed and challenged the appropriateness of the Bank's IFRS 9 impairment methodologies (including the SICR criteria used), key technical decisions, judgements, assumptions and the framework designed and implemented in determining the ECL staging assessment and the ECL estimate. We involved our own financial risk modelling specialists to assist us in performing the above procedures.
- We evaluated the appropriateness of the Bank's methodology for determining the economic scenarios and key macroeconomic variables used and the probability weightings applied to them. We also assessed key macroeconomic variables used, which included reconciling a sample of economic variables to external sources. In addition, we assessed the overall reasonableness of the economic forecasts by comparing the Bank's past forecasts with actual results.

In addition to the above, we performed the following procedures to evaluate the reasonableness of the ECL estimate:

- We assessed the work performed by the Bank's external experts to value the collateral. We involved our own valuation specialists to assist us in assessing the appropriateness of the work performed by the Bank's external experts to value the collateral held.
- *Testing the impairment loss allowance for individually significant loans:*
  Our testing involved:
  - performing credit assessments on a sample of loans to assess:
    - the appropriateness of the assigned staging of the loans;
    - the reasonableness of the timing and amount of estimated recoverable cash flows, including realisable value of collateral; and
    - the appropriateness of the resulting impairment loss allowance.
- *Testing the impairment loss allowance calculated on a collective assessment basis:*
  We involved our own financial risk modelling specialists to assist us in performing these procedures.

  Key aspects of our testing involved:
  - assessing whether the modelling assumptions used considered the relevant risks and were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the borrowers;
  - assessing the incorporation of the impact of key macroeconomic variables in the Probability of Default ("PD") and Loss Given Default Models ("LGD") parameters used in determining the ECL estimate;
  - independently assessing PD and LGD assumptions by reperforming the calculations of PD and LGD parameters used as inputs to ECL models using our own in-house challenger model;
  - assessing the application of the Bank's staging methodology;
  - assessing the reasonableness of the overall ECL estimate by recalculating the Bank's overall ECL estimate using our own challenger model.
- We assessed whether the disclosures in the financial statements appropriately and adequately reflect the Bank's exposure to credit risk, and address the uncertainty which exists in determining expected credit losses.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

Acquisition of certain assets and liabilities from Cyprus Cooperative Bank Ltd.

Refer to note 49 to the financial statements

The key audit matter

On 1st of September 2018 the Bank acquired certain assets and liabilities assumed from Cyprus Cooperative Bank Ltd (the "Acquisition").

The accounting for this transaction is complex due to the significant judgements and estimates that are required to determine the measurement of the fair value of the identifiable assets acquired and liabilities assumed.

As part of accounting for this transaction, the Bank also identified separately and recognised certain assets which were not previously recognised by the seller; mainly relating to the indemnification asset resulting from the Asset Protection Scheme that was part of the Acquisition.

The resulting difference between the consideration transferred and the fair value of the net identifiable assets acquired was recognised in the profit or loss as negative goodwill (gain on a bargain purchase).

Given the size of amounts involved and the complexity of the Acquisition, we considered this to be a key audit matter.

How the matter was addressed in our audit

Our audit procedures in this area included, among others:

- *Identification and recognition of assets and liabilities:* We assessed the appropriateness of the identification and recognition of assets acquired and liabilities assumed at the date of acquisition.

- *Fair value measurement of the identifiable assets and liabilities:* We evaluated the reasonableness of the fair values of the identifiable assets acquired and liabilities assumed at the date of Acquisition.
  We involved our own valuation and financial risk modelling specialists to assist us in assessing and challenging the Bank's methodology to estimate their fair values at the date of the Acquisition.

  Key aspects of our testing involved:
  - assessing the appropriateness of significant judgements and assumptions relating to the discount rate used by the Bank to determine the resulting fair values of the identifiable assets acquired and liabilities assumed at the date of Acquisition.
  - *For Cyprus Government Bonds:*
    - challenging the methodologies adopted, key assumptions used and the resulting fair value estimated by:
      - comparing them with market information and quoted prices for similar assets, where available;
      - recalculating the fair value of certain bonds where market information was not available using appropriate valuation techniques.
  - *For Loans and Advances to Customers:*
    - challenging the methodology adopted, key assumptions used and the resulting fair value estimated by:
      - comparing them with market information
      - evaluating management's assessment in classifying impaired loans and advances acquired into the Purchased and Originated Credit Impaired (POCI) classification.
      - evaluating the data accuracy of key inputs into the valuation models used;
      - recalculating key inputs of the fair value measurement;
      - recalculating the overall fair value estimate.
- *For the Asset Protection Scheme (APS):*
  - challenging the key assumptions used and the resulting fair value estimated by:
    - considering the appropriateness of the various elements to be incorporated in the fair value exercise;
    - evaluating the data accuracy of key inputs into the models;
    - recalculating key inputs in the fair value measurement;
    - recalculating the overall fair value estimate.
- We assess the appropriateness and adequacy of the Bank's disclosures in relation to the Acquisition.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report which includes the Chairman's Message, Chief Executive Officer Message, Group Operations Review, Management Report, Report of the Board of Directors on Corporate Governance and Remuneration Policy Report for the year ended 31 December 2018, but does not include the consolidated and separate financial statements and our auditors' report thereon.

Our opinion on the consolidated and separate financial statements do not cover the other information and we do not express any form of assurance conclusion thereon, except as required by the Companies Law, Cap. 113.

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

With regards to the Management Report and the Corporate Governance Report, our report is presented in the *"Report on other regulatory and legal requirements"* section.

Responsibilities of the Board of Directors and those charged with governance for the consolidated and separate financial statements

The Board of Directors is responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with IFRS-EU and the requirements of the Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors and those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated and separate financial statements.

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

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

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

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

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

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

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

From the matters communicated to those charged with governance, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Report on other legal and regulatory requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of EU Regulation 537/2014 we provide the following information in our Independent Auditors' Report, which is required in addition to the requirements of ISAs.

Date of our appointment and period of engagement

We were first appointed auditors on 14 May 1975 by the General Meeting of the Bank's members to audit its financial statements for the period ended 31 December 1974. Our total uninterrupted period of engagement is 45 years having been renewed annually by resolution at the shareholders' Annual General Meetings.

Consistency of auditors' report to the additional report to the Audit Committee

We confirm that our audit opinion is consistent with the additional report presented to the Audit Committee dated 22 April 2019.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

Pursuant to the additional requirements of law L.53 (I) 2017, and based on the work undertaken in the course of our audit, we report the following:

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

- In our opinion, the Management Report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated and separate financial statements.
- In the light of the knowledge and understanding of the business and the Group's 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 Report in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, has been prepared in accordance with the requirements of the Companies Law, Cap. 113 and is consistent with the financial statements.

- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Corporate Governance Report in relation to the information disclosed for items (iv) and (v) of the subparagraph 2(a) of Article 151 of the Companies Law, Cap. 113. We have not identified any material misstatements in this respect.

- In our opinion, the Corporate Governance Report includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the 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 Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L.53(I)/2017, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Panayiotis A. Peleties.

Panayiotis A. Peleties FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

24 April 2019

HELLENIC BANK GROUP
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Interest income calculated using the effective interest method	6	**235.009**	159.559
Other interest income	6	**5.916**	6.317
Interest expense	7	**(56.744)**	(34.698)
Net interest income		**184.181**	131.178
Fee and commission income	8	**55.289**	50.156
Fee and commission expense	9	**(6.525)**	(4.868)
Net fee and commission income		**48.764**	45.288
Net gains on disposal and revaluation of foreign currencies and financial instruments	10	**27.095**	12.413
Other income	11	**29.133**	45.584
Total net income		**289.173**	234.463
Staff costs	12	**(87.560)**	(86.924)
Depreciation and amortisation	26, 27	**(11.202)**	(8.116)
Administrative and other expenses	13	**(103.732)**	(105.840)
Total expenses		**(202.494)**	(200.880)
Profit from ordinary operations before impairment losses and provisions to cover credit risk		**86.679**	33.583
Impairment losses and provisions to cover credit risk	14	**(67.239)**	(82.910
Profit/(loss) before share of results of associate company and negative goodwill		**19.440**	(49.327)
Share of results of associate company net of taxation Negative goodwill	25	**2.171**	789
Negative Goodwill	49	**297.866**	-
Profit/(loss) before taxation		**319.477**	(48.538)
Taxation	15	**576**	3.493
Profit/(loss) for the year		**320.053**	(45.045)
Profit/(loss) attributable to:			
Shareholders of the parent company		**319.263**	(45.658)
Non-controlling interests		**790**	613
Profit/(loss) for the year		**320.053**	(45.045)
Basic and diluted earnings/(loss) per share (€cent)	16	**160,86**	(23,00)

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018	2017
		€'000	€'000
Profit/(loss) for the year		**320.053**	(45.045)
Other comprehensive (expenses)/income			
Items that will not be reclassified in the income statement			
Surplus on revaluation of land and buildings	36	**-**	8.731
Taxation relating to components of other comprehensive income	36	**73**	(236)
Net revaluation deficit of investments in equity and other securities and collective investment units at fair value through other comprehensive income	36	**337**	N/A
		410	8.495
Items that are or may be reclassified subsequently in the income statement			
Net revaluation surplus of investments in equity and other securities and collective investment units and debt securities available for sale	36	**N/A**	32.977
Net revaluation deficit of investments in debt securities measured at fair value through other comprehensive income	36	**(6.195)**	N/A
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income reclassified to income statement on disposal	36	**(18.281)**	-
Amortisation of revaluation of reclassified investments in debt securities available for sale	22	**N/A**	(74)
		(24.476)	32.903
Other comprehensive (expenses)/income for the year net of taxation		**(24.066)**	41.398
Total comprehensive income/(expenses) for the year		**295.987**	(3.647)
Total comprehensive income/(expenses) for the year attributable to:			
Shareholders of the parent company		**295.197**	(4.254)
Non-controlling interests		**790**	607
		295.987	(3.647)

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Assets			
Cash and balances with Central Banks	17,39	**4.391.444**	2.293.754
Placements with other banks	18,39	**307.888**	348.176
Loans and advances to customers	19	**6.283.438**	2.766.738
Debt securities	20	**4.526.428**	1.018.902
Equity and other securities and collective investment units	23	**34.638**	30.037
Investment in associate company	25	**8.997**	7.600
Property, plant and equipment	26	**101.489**	102.541
Intangible assets	27	**46.546**	34.254
Tax receivable		**494**	553
Deferred tax asset	28	**16.326**	12.286
Other assets	29	**408.498**	231.796
Total assets		**16.126.186**	6.846.637
Liabilities			
Deposits by banks	30	**216.199**	176.355
Customer deposits and other customer accounts	31	**14.709.168**	5.808.125
Tax payable		**5.322**	5.263
Deferred tax liability	32	**44.457**	2.498
Other liabilities	33	**196.826**	152.433
Loan capital	34	**129.667**	139.667
Total liabilities		**15.301.639**	6.284.341
Equity			
Share capital	35	**99.237**	99.237
Reserves		**721.109**	459.648
Equity attributable to shareholders of the parent company		**820.346**	558.885
Non-controlling interests		**4.201**	3.411
Total equity		**824.547**	562.296
Total liabilities and equity		**16.126.186**	6.846.637
Contingent liabilities and commitments	37	**1.366.059**	958.268

The Consolidated Financial Statements have been approved by the Board of Directors on 24 April 2019

Youssef A. Nasr Chairman of the Board of Directors	Ioannis A. Matsis Chief Executive Officer	Dr. Evripides A. Polykarpou Chairman of the Audit Committee of the Board	Lars Kramer Chief Financial Officer

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to shareholders of the parent company								
	Share capital (Note 35)	Reduction of share capital reserve (Note 35)	Share premium reserve (Note 35)	Revenue reserve	Translation reserve	Revaluation reserves (Note 36)	Total	Non-controlling interests	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance 1 January 2018	99.237	260.269	515.609	(394.579)	33	78.316	**558.885**	3.411	**562.296**
Adjustment on initial application of IFRS 9 net of taxation	-	-	-	(35.671)	-	1.987	**(33.684)**	-	**(33.684)**
Restated balance at 1 January 2018	99.237	260.269	515.609	(430.250)	33	80.303	**525.201**	3.411	**528.612**
Total comprehensive income/(expenses) for the year net of taxation									
Profit for the year	-	-	-	319.263	-	-	**319.263**	790	**320.053**
Other comprehensive expenses	-	-	-	-	-	(24.066)	**(24.066)**	-	**(24.066)**
Transfer due to the disposal of investments in equity and other securities and collective investment units measured at fair value through other comprehensive income	-	-	-	110	-	(110)	**-**	-	**-**
Transfer of excess depreciation on revaluation surplus	-	-	-	419	-	(419)	**-**	-	**-**
Transfer due to the disposal of immovable property	-	-	-	396	-	(396)	**-**	-	**-**
	-	-	-	320.188	-	(24.991)	**295.197**	790	**295.987**
Transactions with shareholders									
Contributions and distributions									
Defence on deemed dividend distribution	-	-	-	(52)	-	-	**(52)**	-	**(52)**
	-	-	-	(52)	-	-	**(52)**	-	**(52)**
Balance 31 December 2018	99.237	260.269	515.609	(110.114)	33	55.312	**820.346**	4.201	**824.547**

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Attributable to shareholders of the parent company								
	Share capital (Note 35)	Reduction of share capital reserve (Note 35)	Share premium reserve (Note 35)	Revenue reserve	Translation reserve	Revaluation reserves (Note 36)	Total	Non-controlling interests	Total
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
Balance 1 January 2017	99.237	260.269	515.609	(349.168)	33	37.509	**563.489**	3.382	**566.871**
Total comprehensive (expenses)/income for the year net of taxation									
(Loss)/profit for the year	-	-	-	(45.658)	-	-	**(45.658)**	613	**(45.045)**
Other comprehensive income/(expenses)	-	-	-	-	-	41.404	**41.404**	(6)	**41.398**
Transfer due to disposal of immovable property	-	-	-	429	-	(429)	**-**	-	**-**
Transfer of excess depreciation on revaluation surplus	-	-	-	168	-	(168)	**-**	-	**-**
	-	-	-	(45.061)	-	40.807	**(4.254)**	607	**(3.647)**
Transactions with shareholders									
Contributions and distributions									
Dividends by subsidiary	-	-	-	-	-	-	**-**	(578)	**(578)**
Defence on deemed dividend distribution	-	-	-	(350)	-	-	**(350)**	-	**(350)**
	-	-	-	(350)	-	-	**(350)**	(578)	**(928)**
Balance 31 December 2017	99.237	260.269	515.609	(394.579)	33	78.316	**558.885**	3.411	**562.296**

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Cash flow from operating activities			
Profit/(loss) for the year		**320.053**	(45.045)
Depreciation of property, plant and equipment and amortisation of intangible assets	26, 27	**11.202**	8.116
Loss/(gain) on disposal of property, plant and equipment and intangible assets		**85**	(84)
Gain on disposal and revaluation of investments in debt and equity securities		**(23.650)**	(1.469)
Impairment losses on stock of properties held for sale	13	**1**	-
Impairment losses on ownner-occupied property	13	**-**	1.528
Write off of intangible assets	27	**1.214**	-
Income from investments in debt and equity securities		**(57.652)**	(31.597)
Dividend income	11	**(789)**	(1.000)
Interest expense on loan capital	7	**161**	242
Impairment of goodwill	27	**-**	18
Impairment losses and provisions to cover credit risk	14	**67.239**	82.910
Gain on disposal of the operations of the Bank's Arrears Management Division	25	**-**	(19.012)
Share of results of associate company	25	**(2.171)**	(789)
Negative goodwill	49	**(297.866)**	-
Taxation	15	**(576)**	(3.493)
Operating profit/(loss) before working capital changes		**17.251**	(9.675)
Decrease in loans and advances to customers		**425.086**	73.165
Increase in other assets		**(23.636)**	(40.788)
Increase/(decrease) in customer deposits and other customer accounts		**121.721**	(302.963)
Increase in other liabilities		**8.263**	43.729
Decrease in placements with other banks		**2.257**	11.634
Decrease/(increase) in cash and balances with Central Banks		**794.206**	(39.829)
(Decrease)/increase in deposits by banks		**(67.326)**	75.703
Net cash from/(used in) operating activities before taxation		**1.277.822**	(189.024)
Tax paid		**(830)**	(631)
Net cash from/(used in) operating activities		**1.276.992**	(189.655)
Cash flow from investing activities			
Net proceeds from the sale of Non-Performing Loan and Real Estate Management Business	25	**-**	12.748
Acquisition of investment in associate company	25	**-**	(6.811)
Proceeds net of cash received from Acquisition (refer to Note 49)		**42.713**	-
Dividend received from associate company	25	**774**	-
Income from investments in debt and equity and oher securities and collective investment units		**57.652**	31.597
Net (additions)/disposals/maturity of investment in debt and equity and other securities and collective investment units		**599.907**	150.579
Additions of property, plant and equipment	26	**(4.883)**	(6.754)
Additions of intangible assets	27	**(6.732)**	(10.568)
Proceeds from disposal of property, plant and equipment		**38**	422
Net cash from investing activities		**689.469**	171.213
Cash flow from financing activities			
Repayment of loan capital		**(10.000)**	-
Dividend paid by subsidiary company		**-**	(578)
Defence on deemed dividend distribution		**(52)**	(349)
Interest paid on loan capital	7	**(161)**	(242)
Dividend income	11	**789**	1.000
Net cash used in financing activities		**(9.424)**	(169)
Net increase/(decrease) in cash and cash equivalents		**1.957.037**	(18.611)
Cash and cash equivalents at the beginning of the year		**2.475.071**	2.493.682
Cash and cash equivalents at the end of the year	39	**4.432.108**	2.475.071

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Interest income calculated using the effective interest method	6	**234.974**	159.458
Other interest income	6	**5.916**	6.317
Interest expense	7	**(56.812)**	(34.800)
Net interest income		**184.078**	130.975
Fee and commission income	8	**55.774**	50.460
Fee and commission expense	9	**(3.821)**	(2.395)
Net fee and commission income		**51.953**	48.065
Net gains on disposal and revaluation of foreign currencies and financial instruments	10	**27.319**	12.462
Other income	11	**16.415**	29.955
Total net income		**279.765**	221.457
Staff costs	12	**(82.532)**	(81.571)
Depreciation and amortisation	26, 27	**(10.971)**	(7.865)
Administrative and other expenses	13	**(100.140)**	(99.849)
Total expenses		**(193.643)**	(189.285)
Profit before impairment losses and provisions to cover credit risk		**86.122**	32.172
Impairment losses and provisions to cover credit risk	14	**(67.388)**	(82.910)
Profit/(loss) before negative goodwill and taxation		**18.734**	(50.738)
Negative goodwill	49	**297.866**	-
Profit/(loss) before taxation		**316.600**	(50.738)
Taxation	15	**1.309**	3.493
Profit/(loss) for the year		**317.909**	(47.245)
Basic and diluted earnings/(loss) per share (€cent)	16	**160,18**	(23,80)

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Profit/(loss) for the year		**317.909**	(47.245)
Other comprehensive income			
Items that will not be reclassified in the income statement			
Surplus on revaluation of land and buildings	36	-	8.903
Taxation relating to components of other comprehensive income	36	**337**	(226)
Net revaluation surplus of investments in equity and other securities and collective investment units at fair value through other comprehensive income	36	**69**	N/A
		406	8.677
Items that are or may be reclassified subsequently in the income statement			
Surplus on revaluation of available for sale equity and debt securities	36	**N/A**	32.936
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income		**(6.270)**	N/A
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income reclassified to income statement on disposal		**(18.281)**	N/A
Amortisation of revaluation of reclassified debt securities available for sale	22	**N/A**	(74)
		(24.551)	32.862
Other comprehensive (expenses)/income for the year net of taxation		**(24.145)**	41.539
Total comprehensive income/(expenses) for the year		**293.764**	(5.706)

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Assets			
Cash and balances with Central Banks	17	**4.391.442**	2.293.753
Placements with other banks	18	**294.283**	336.272
Loans and advances to customers	19	**6.283.438**	2.766.738
Debt securities	20	**4.525.629**	1.018.090
Equity and other securities and collective investment units	23	**11.497**	9.231
Investments in subsidiary companies	24	**87.595**	183.551
Investment in associate company	25	**6.811**	6.811
Property, plant and equipment	26	**95.064**	95.991
Intangible assets	27	**31.710**	18.295
Tax receivable		**69**	65
Deferred tax asset	28	**16.326**	12.286
Other assets	29	**322.582**	52.368
Total assets		**16.066.446**	6.793.451
Liabilities			
Deposits by banks	30	**216.199**	176.355
Customer deposits and other customer accounts	31	**14.709.324**	5.808.125
Amounts due to subsidiary companies	24	**16.864**	23.773
Tax payable		**5.124**	5.120
Deferred tax liability	32	**44.249**	2.351
Other liabilities	33	**137.772**	92.133
Loan capital	34	**129.667**	139.667
Total liabilities		**15.259.199**	6.247.524
Equity			
Share capital	35	**99.237**	99.237
Reserves		**708.010**	446.690
Total equity		**807.247**	545.927
Total liabilities and equity		**16.066.446**	6.793.451
Contingent liabilities and commitments	37	**1.366.159**	958.368

The Financial Statements have been approved by the Board of Directors on 24 April 2019

Youssef A. Nasr Chairman of the Board of Directors	Ioannis A. Matsis Chief Executive Officer	Dr. Evripides A. Polykarpou Chairman of the Audit Committee of the Board	Lars Kramer Chief Financial Officer

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital (Note 35)	Reduction of share capital reserve (Note 35)	Share premium reserve (Note 35)	Revenue reserve	Translation reserve	Revaluation reserves (Note 36)	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance 1 January 2018	99.237	260.269	515.476	(404.666)	67	75.544	**545.927**
Adjustment on initial application of IFRS 9 net of taxation	-	-	-	(35.671)	-	2.054	**(33.617)**
Restated balance at 1 January 2018	99.237	260.269	515.476	(440.337)	67	77.598	**512.310**
Total comprehensive income/(expenses) for the year net of taxation							
Profit for the year	-	-	-	317.909	-	-	**317.909**
Other comprehensive expenses	-	-	-	-	-	(24.145)	**(24.145)**
Transfer of excess depreciation on revaluation surplus	-	-	-	419	-	(419)	-
Transfer due to disposal of immovable property	-	-	-	396	-	(396)	-
Transfer due to the disposal of investments in equity and other securities and collective investment units measured at fair value through other comprehensive income	-	-	-	110	-	(110)	-
Transfer of reserves due to absorption of subsidiaries' operations (Note 24)	-	-	-	1.225	-	-	**1.225**
	-	-	-	320.059	-	(25.070)	**294.989**
Transactions with shareholders							
Contributions and distributions							
Defence on deemed dividend distribution	-	-	-	(52)	-	-	**(52)**
	-	-	-	(52)	-	-	**(52)**
Balance 31 December 2018	99.237	260.269	515.476	(120.330)	67	52.528	**807.247**

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Share capital (Note 35)	Reduction of share capital reserve (Note 35)	Share premium reserve (Note 35)	Revenue reserve	Translation reserve	Revaluation reserves (Note 36)	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Balance 1 January 2017	99.237	260.269	515.476	(357.668)	67	34.602	**551.983**
Total comprehensive (expenses)/income for the year net of taxation							
Loss for the year	-	-	-	(47.245)	-	-	**(47.245)**
Other comprehensive income	-	-	-	-	-	41.539	**41.539**
Transfer due to disposal of immovable property	-	-	-	429	-	(429)	**-**
Transfer of excess depreciation on revaluation surplus	-	-	-	168	-	(168)	**-**
	-	-	-	(46.648)	-	40.942	**(5.706)**
Transactions with shareholders							
Contributions and distributions							
Defence on deemed dividend distribution	-	-	-	(350)	-	-	**(350)**
	-	-	-	(350)	-	-	**(350)**
Balance 31 December 2017	99.237	260.269	515.476	(404.666)	67	75.544	**545.927**

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €'000	2017 €'000
Cash flow from operating activities			
Bank profit/(loss) for the year		**317.909**	(47.245)
Depreciation of property, plant and equipment and amortisation of intangible assets	26, 27	**10.971**	7.865
Loss/(gain) on disposal of property, plant and equipment and intangible assets		**87**	(77)
Gain on disposal and revaluation of investments in debt and equity securities		**(23.874)**	(1.518)
Impairment losses on stock of properties held for sale	13	**1**	-
Impairment losses on owner-occupied property	13	**-**	1.528
Income from investments in debt and equity securities		**(66.055)**	(34.831)
Dividend income	11	**(3.593)**	(4.279)
Interest expense on loan capital	7	**161**	242
Impairment losses and provisions to cover credit risk	14	**67.388**	82.910
Gain on disposal of the operations of the Bank's Arrears Management Division	25	**-**	(19.012)
Negative goodwill	49	**(297.866)**	-
Impairment losses of subsidiary companies		**182**	-
Taxation	15	**(1.309)**	(3.493)
Cash generated/(used in) from operations before working capital changes		**4.002**	(17.910)
Decrease in loans and advances to customers		**425.088**	80.299
(Increase)/decrease in other assets		**(17.977)**	50.092
Increase/(decrease) in customer deposits and other customer accounts		**121.877**	(302.963)
Increase in other liabilities		**9.509**	36.600
Decrease in placements with other banks		**3.081**	13.557
Decrease/(increase) in cash and balances with Central Banks		**794.206**	(39.830)
(Decrease)/increase in deposits by banks		**(67.326)**	75.703
Decrease in amounts due from subsidiary companies		**-**	1.007
Decrease in amounts due to subsidiary companies		**(6.909)**	(1.589)
Net cash from/(used in) operating activities before taxation		**1.265.551**	(105.034)
Tax paid		**(236)**	(9)
Net cash from/(used in) operating activities		**1.265.315**	(105.043)
Cash flow from investing activities			
Net increase in investment in subsidiary companies		**(2.416)**	(99.064)
Net proceeds from the sale of Non-Performing Loan and Real Estate Management Business	25	**-**	12.748
Acquisision of investment in associate company	25	**-**	(6.811)
Proceeds net of cash received from the Acquisition (refer to Note 49)		**42.713**	-
Income from investments in debt and equity securities		**66.055**	34.831
Net (additions)/disposals/maturity of investments in debt and equity securities		**602.466**	158.266
Additions of property, plant and equipment	26	**(4.848)**	(6.578)
Additions of intangible assets	27	**(6.571)**	(9.398)
Proceeds from disposal of property, plant and equipment		**37**	412
Net cash from investing activities		**697.436**	84.406
Cash flow from financing activities			
Repayment of loan capital		**(10.000)**	-
Defence on deemed dividend distribution		**(52)**	(349)
Interest paid on loan capital	7	**(161)**	(242)
Dividend income	11	**3.593**	4.279
Net cash (used in)/from financing activities		**(6.620)**	3.688
Net increase/(decrease) in cash and cash equivalents		**1.956.131**	(16.949)
Cash and cash equivalents at the beginning of the year		**2.465.102**	2.482.051
Cash and cash equivalents at the end of the year	39	**4.421.233**	2.465.102

The notes on pages 34 to 184 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. INCORPORATION AND PRINCIPAL ACTIVITY

Hellenic Bank Public Company Limited (the "Bank") was incorporated in Cyprus and is a public company in accordance with the provisions of the Companies Law (Cap. 113), the Cyprus Stock Exchange Laws and Regulations and the Income Tax Laws. The Bank's registered office is located at 200, Corner of Limassol and Athalassa Avenues, 2025 Strovolos, P.O. Box 24747, 1394 Nicosia. The Bank is the holding company of Hellenic Bank Group (the "Group").

The principal activity of the Group is the provision of a wide range of banking and financial services, which include financial, investment and insurance services, custodian and factoring services as well as management and disposal of properties.

2. REPORTING GROUP STRUCTURE

The Financial Statements for the year ended 31 December 2018 comprise of the Financial Statements of Hellenic Bank Public Company Limited and its subsidiary companies, which together are referred to as the Group.

On 3 September 2018, the Bank completed the acquisition of a business from Cyprus Cooperative Bank (CCB) (the "Acquisition"), referred to as Cooperative Asset Management Company Ltd (the ex-CCB) with effect from 1 September 2018. The Bank signed the business transfer agreement (BTA) to acquire substantially all the performing business of CCB, including the related business of lending, deposit taking and the provision of other banking services, to the extent comprised of the acquired assets (the "Assets") and the assumed liabilities (the "Assumed Liabilities"), as carried on by CCB (the "Business"). The Assets comprise a portfolio of primarily performing loans, Cyprus Government Bonds, cash and other current assets, while the Assumed Liabilities comprise customer deposits and other current liabilities.

The measurement principle in IFRS 3 is that the identifiable assets acquired and the liabilities assumed as part of a business combination are measured at the date of acquisition at their fair values. There are limited exceptions to this measurement principle. All identifiable assets acquired and liabilities assumed were recognised in accordance with IFRS 3 requirements at the date of acquisition and at initial consolidation.

Additional information on the acquired assets and liabilities assumed is presented in Note 49.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Consolidated Financial Statements and the Bank's separate Financial Statements (hereafter collectively referred to as "Financial Statements") and have been applied consistently by all companies of the Group.

3.1. Basis of preparation

(a) Going concern principle
The Financial Statements have been prepared on a going concern basis.

(b) Statement of compliance
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 Cyprus Stock Exchange and the Cyprus Securities and Exchange Commission Laws and Regulations.

(c) Basis of measurement
The Financial Statements have been prepared on the historical cost basis, except from derivatives, financial assets at fair value through profit or loss, investments classified at fair value through other comprehensive income , properties for own use and investment properties which are measured at fair value. Stock of properties are measured at the lower of cost and net realisable value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

(d) Functional and presentation currency
The Financial Statements are presented in Euro (€), which is the functional currency of the Bank. All figures have been rounded to the nearest thousand, except where otherwise indicated.

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

As from 1 January 2018, the Group adopted all the changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations.

(i) Recently adopted IFRSs and interpretations

The following Standards and interpretations are those standards and interpretations which are relevant to the Group and which have been applied in the preparation of these Financial Statements.

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018)

The Group has adopted IFRS 9 as issued by the International Accounting Standards Board (IASB) in July 2014 with a date of transition of 1 January 2018, which resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. The Group did not early adopt any of IFRS 9 requirements in the previous periods. Refer to "IFRS 9 Transition Impact Analysis" section for the impact on the Group's Consolidated Financial Statements (Refer to Note 4). The new accounting policies are disclosed in Note 3.17.

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018)

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which is effective for annual periods beginning on or after 1 January 2018. In April 2016, the IASB issued clarifying amendments to IFRS 15 which provide additional application guidance but did not change the underlying principles of the standard. The standard was endorsed by the EU in September 2016. IFRS 15, which replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", provides a principles based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The recognition of such revenue is in accordance with five steps to: 1) identifying the contract with the customer; 2) identifying each of the performance obligations included in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognising revenue as each performance obligation is satisfied. The Group has elected the cumulative effect transition method with a transition adjustment calculated as of 1 January 2018 recognised in retained earnings without restating comparative periods. The adoption of this Standard did not have a material effect on the retained earnings and the Financial Statements of the Group.

IFRS 4 (Amendments) Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018)

The amendments intend to address concerns about the different effective dates of IFRS 9 and the issued new insurance contracts standard (IFRS 17). The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: a) an option permitting entities to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets (overlay approach) or b) an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (deferral approach).

The insurance subsidiaries of the Group have adopted IFRS 9 as of 1 January 2018, therefore these amendments did not impact the financial statements of the Group.

IFRS 2 (Amendments) "Classification and Measurement of Share based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018)

The amendments cover three main accounting areas: a) the effects of vesting conditions on the measurement of cash settled share based payments; b) classification of a share based payment transaction settled net of tax withholdings; and c) accounting where a modification to the terms and conditions of a share based payment transaction changes its classification from cash settled to equity settled. The new requirements could affect the classification and/or measurements of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. These amendments did not have a material effect on the Financial Statements of the Group.

IAS 40 (Amendments) "Transfers of Investment Property" (effective for annual periods beginning on or after 1 January 2018)

The amendments clarify the requirements on transfers to, or from, investment property. A transfer is made when, and only when, there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. In addition, the amendments clarify that the revised examples of evidence of a change in use included in the amended version of IAS 40 are not exhaustive. These amendments did not have a material effect on the Financial Statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (IFRS 1 and IAS 28))
Annual improvements include amendments on IFRS 1 and IAS 28. The amendments to IFRS 1 remove the short-term exemptions covering transition provisions of IFRS 7, IAS 19 and IFRS 10 which are no longer relevant. The amendments to IAS 28 clarify that the election by venture capital organisations to measure investments in associates or joint ventures at fair value through profit or loss should be made separately for each associate or joint venture upon initial recognition. The improvements did not have a material effect on the Financial Statements of the Group.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018)
The interpretation clarifies how to determine the "date of transaction" for the purpose of determining the exchange rate to be used on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non monetary asset or non monetary liability (e.g. a non refundable deposit or deferred revenue). IFRIC 22 specifies that the transaction date is the date on which the entity initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation did not have a material impact on the Financial Statements of the Group.

(ii) New IFRS's and interpretations
The following Standards and interpretations have been issued but are not yet effective. The Group does not intend to adopt these standards prior to their effective date.

Standards and Interpretations adopted by the European Union

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)
IFRS 16 "Leases" has an effective date for annual periods beginning or on after 1 January 2019 and 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 new standard results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 "Leases" and includes all contracts that convey the right to use an asset for a period of time in exchange for consideration.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model.

The Bank is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. The initial recognition of the right of use asset and lease liability will be based on the discounted payments required under the lease, taking into account the lease term as determined by the new standard. Also, all lease liabilities are to be measured with reference to an estimate of the lease term, which includes optional lease periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, the Bank will continue to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As permitted by the Standard, the Bank intends to apply the modified retrospective approach, which means that it will apply the standard without restatement of comparatives where the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings. In addition, the Bank intends to take advantage of the short-term lease exemption under IFRS 16 for those contracts whose lease term as of the date of initial application of the standard is 12 months or less. For those contracts that contain options to terminate or extend the lease term, the Bank will consider its intention as of the end of year in determining the lease term.

The expected impact that the application of IFRS 16 will have on the financial statements of the Bank is yet to be finalized. The assessment is expected to result in an increase of assets and financial liabilities with no material impact on retained earnings.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 9 (Amendments) "Prepayment Features with Negative Compensation" (effective for annual periods beginning on or after 1 January 2019)
In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". These amendments allow financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. To qualify for amortised cost measurement, the negative compensation must be 'reasonable compensation for early termination of the contract' and the asset must be held within a 'held to collect' business model. These amendments are not expected to have a material effect on the financial statements of the Group.

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019)
IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. More specifically, it clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The Group is currently evaluating the expected impact of adopting the interpretation on its Financial Statements.

IAS 28 (Amendments) "Long-term Interest in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019)
In October 2017, the IASB issued "Long term interests in Associates and Joint Ventures" (Amendments to IAS 28). The amendments clarify the accounting for long term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture, but to which equity accounting is not applied. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019)
In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 "Business Combinations": the amendments clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value.

- IFRS 11 "Joint Arrangements": the amendments clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

- IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised – i.e. in profit or loss, OCI or equity.

- IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Group does not expect these amendments to have a material impact on its Financial Statements.

IAS 19 (Amendments) "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019)
In February 2018, the IASB issued amendments to the guidance in IAS 19, 'Employee Benefits', in connection with accounting for planned amendments, curtailments and settlements. The Group does not expect these amendments to have a material impact on its Financial Statements.

Standards and Interpretations not adopted by the European Union

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021)
In May 2017, the IASB issued IFRS 17 "Insurance Contracts", a comprehensive new accounting standard for insurance contracts covering recognition, measurement, presentation and disclosure. IFRS 17 replaces IFRS 4 "Insurance Contract", and solves the comparison problems created by IFRS 4 by requiring all insurance contracts to be accounted for in consistent manner, benefiting both investors and insurance companies. Insurance obligations will be accounted for using current values instead of historical cost and re-measured at each reporting period. The Standard applies to all types of insurance contracts (i.e. Life, Non Life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The insurance subsidiaries of the Group do not plan to adopt the standard early. The companies are currently evaluating the impact of the standard on their financial statement which is expected to be significant.

Amendments to references to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020)
In March 2018, the IASB issued a revised version of its Conceptual Framework for Financial Reporting that underpins IFRS Standards. The Conceptual Framework sets out the fundamental concepts of financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, providing useful information for investors and others. The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction; and it helps stakeholders more broadly to understand the Standards better. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

Amendments to IFRS 3 "Business Combinations" (effective for annual periods beginning on or after 1 January 2020)
In October 2018, the IASB issued a narrow scope amendments to IFRS 3 Business Combinations to improve the definition of a business. These amendments clarify the determination of whether an acquisition made is of a business or a group of assets. The amended definition emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

Amendments to IAS 1: "Presentation of financial statements" and IAS 8: "Definition of Material" (effective for annual periods beginning on or after 1 January 2020)
In October 2018, the IASB issued the 'Definition of Material (Amendments to IAS 1 and IAS 8)' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments clarify the definition of material and how it should be applied, stating that "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

Amendment in IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"
The IASB has made limited scope amendments to IAS 28 Investments in Associates and Joint Ventures and IFRS 10 Consolidated Financial Statements. The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business' as defined in IFRS 3 Business Combination. The IASB and the Interpretations Committee concluded that when the non-monetary assets constitute a business, a full gain or loss should be recognised on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised only to the extent of the other investor's share. In December, the IASB decided to defer the application date of this amendment until research is completed. The Group is currently evaluating the expected impact of this amendment on its Financial Statements.

The financial statements contain a summary of the accounting policies adopted in the preparation of the Consolidated Financial Statements in Notes 3.3 to 3.36.

3.3. Basis of consolidation

3.3.1. Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (Refer to Note 3.3.2.).The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any negative goodwill is recognised in profit or loss immediately. Transactions costs are expensed as incurred, except if related to the issue of debt or equity securities (Refer to Note 2).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at the fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.3.2. Subsidiaries

The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Investment in subsidiaries are presented at cost in the Bank's statement of financial position less provision for impairment, where applicable.

The Group promotes the formation of special purpose vehicles (SPVs) for the purpose of asset securitisation transactions so as to accomplish defined objectives. The Group consolidates these SPVs if the substance of its relationship with them indicates that it has control over them.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

3.3.3. Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.3.4. Loss of control

When the Group losses control over a subsidiary, it derecognized the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.3.5. Associates

Associates are entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are presented at cost less provision for impairment in the Bank's statement of financial position whereas in the Consolidated Financial Statements, they are accounted for using the equity method. They are initially recognised at cost which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of profit or loss and OCI of the associates.

3.4. Foreign currency
(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the translation of a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flows hedge, which are recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Group's presentation currency (Euro) at exchange rates at the statement of financial position date. The income and expenses of foreign operations are translated into Euro using the average exchange rates for the year. Exchange differences arising on translation of foreign operations are recognised directly in the translation reserve within equity. When a foreign operation is disposed of, the cumulative amount of the exchange differences recognised in equity and relating to that foreign operation is reclassified to the income statement when the gain or loss on disposal is recognised.

The Group also hedges the foreign currency risk that derives from the translation to Euro of the net position of its foreign subsidiaries by maintaining an open foreign exchange position. All exchange differences resulting from the translation of the open foreign exchange position are recognised in the translation reserve. There was no movement in the translation reserve since the termination of the foreign operations.

3.5. Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that is responsible for allocating resources to and assessing the performance of the operating segments of the Group.

For management purposes, the Group is organised into two operating segments in Cyprus based on the provision of services, as follows:

- Banking and financial services segment - principally providing banking and financial services, including financing and investment services, custodian and factoring services as well as management and disposal of properties. Banking and financial services segment also includes the share of results of associate company,
- Insurance services segment - principally providing life and general insurance services.

  Management monitors the operating results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss before taxation which is measured in the same manner as in the Consolidated Financial Statements.

Transfer prices between segments are on an arm's length basis in a manner similar to transactions with third parties. Balances and transactions between segments are eliminated on consolidation.

3.6. Turnover
Group turnover includes interest income, fee and commission income, net gains or losses on disposal and revaluation of foreign currencies and financial instruments and other income.

3.7. Interest income and expense
Interest expense on financial liabilities held at amortised cost is calculated using the effective interest method (EIR) which allocates interest over the expected live of the financial liabilities.

Interest income on loans and advances at amortised cost is calculated by applying the EIR on the gross carrying amount of the asset, unless the asset is credit-impaired. For financial assets that are credit- impaired, interest income is calculated by applying EIR to the amortised cost (i.e. gross carrying amount less credit loss allowance). For purchased or originated credit impaired (POCI) financial assets, interest income is recognised by applying a credit adjusted EIR (CAEIR) (based on an initial expectation of further credit losses) on the amortised cost of the financial asset.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

3.8. Fee and commission income and expense
Fee and commission expense is recognised in the income statement on an accruals basis, as the related services are performed.

The Group applies the IFRS 15, "Revenue from Contracts with Customers" five-step revenue recognition model to recognise commissions and fee income, under which income is recognised when control of goods and services is transferred, hence the contractual performance obligations to the customer has been satisfied.

As a first step, the Group identifies the contract with the customer and subsequently the performance obligation. The amount of income is measured on the basis of the contractually agreed transaction price and is allocated to the performance obligations defined in the contract. Income is recognised in profit or loss when the identified performance obligation has been satisfied.

3.9. Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

3.10. Income from hire purchase

Income from hire purchase recognised in the income statement is calculated in a systematic manner on the basis of instalments falling due, in order to produce a constant periodic rate of return on the net investment outstanding.

Hire purchase debtors are included in loans and advances to customers in the consolidated statement of financial position, net of unearned charges attributable to future instalments.

3.11. Investment property rental income

Rental income is recognised, in other income, on an accrual basis in accordance with the substance of the relevant agreements.

3.12. Profit/(loss) from the disposal of property held for sale

Profit/(loss) on disposal of property held for sale is recognised in the income statement in "Other income" when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

3.13. Employee retirement benefits

The Group participates in two different defined contribution retirement plans.

The terms of employment of the majority of Group employees are in accordance with the provisions of the Collective Agreement between the Cyprus Banks Employers Association and the Cyprus Union of Bank Employees under which a defined contributions Provident Fund for the Hellenic Bank Group staff was set up and since then operates in accordance with Cyprus legislation. In accordance with the Collective Agreement, and following the conclusion on 31 July 2017 of a new agreement amending the Collective Agreement, the employers' contributions to the Provident Fund for 2017 and 2018 were set at 9%. The employer contributions to the Provident Fund for the onboarded employees is 7%.

A number of staff are employed on the basis of personalised employment contracts that are not in accordance with the terms of the Collective Agreement. These employees are members of a multi- employer defined contribution Provident Funds of their choice, to which the employer contributes 9% of each employee's gross salary.

Group obligations towards the employees' retirement benefits are limited to payment of the contributions to each Provident Fund. Employer's contributions due for payment are recognised as staff expense.

Prepaid contributions are recognised as an asset to the extent that cash will be refunded or future payments will be reduced.

3.14. Income tax

Income tax expense comprises of current and deferred tax. It is recognised in the income statement unless it relates to items recognised directly in equity or in the statement of comprehensive income.

Current taxation represents the amount of income tax payable on the taxable income of a tax period, using tax rates prevailing as at the date of the statement of financial position as well as any adjustments to tax payable in respect of previous years' results.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and their tax base. Deferred tax asset is recognised only to the extent that future taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred tax is calculated at tax rates expected to be applicable in the period during which the asset will be utilised or the liability will be settled taking into consideration the tax rates and legislation enacted or substantially enacted at the reporting date.

Tax assets and liabilities are offset if they relate to taxes imposed by the same tax authority provided it allows such settlements, and provided the intention of the Group is to either settle the net amount or realise the asset and settle the obligation simultaneously.

3.15. Special Levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2017", 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 31 December of the previous year for the quarter ending on 31 March, on 31 March of the same year for the quarter ending on 30 June, on 30 June of the same year for the quarter ending on 30 September and on 30 September of the same year for the quarter ending on 31 December. Based on an amendment to the Law effective as from 6 October 2017, an amount corresponding to the annual contribution of each credit institution to the Resolution Fund or to the Single Resolution Fund as the case may be, is deducted from the balance of special levy payable, up to the maximum amount of special levy for the same year.

Based on an amendment to the Law, as from 1 January 2015, 35/60 of the funds received were deposited to the Recapitalisation Fund incorporated pursuant to the Law 190(I) 2015. As from 1 January 2018 and for every subsequent year, 35/60 of the special levy paid in accordance with the Law, will be transferred to the Recapitalisation Fund within 45 days of their deposit in the Government General Account and the remaining 25/60 will remain in that Account. All transfers to the Recapitalisation Fund will cease upon accumulation of a total amount of €175 million in that Fund.

3.16. Financial instruments

The Group applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

3.16.1. Classification and Measurement of financial assets and liabilities

The classification of financial assets is determined on the basis of the Bank's business model within which the financial assets are managed and the contractual cash flow characteristics (whether the cash flows represent 'solely payments of principal and interest' (SPPI)). There was no change from IAS 39 for the classification and measurement of financial liabilities.

Business Model Assessment

The Group assessed the business model criteria at a portfolio level because this best reflects the way in which the business is managed, and information is provided to management. Information that is considered in determining the applicable business model includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice,
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's management,
- the risks that affect the performance of the business model and, in particular the way in which those risks are managed,
- the frequency, volume and timing of sales in prior periods, the reason for such sales and expectations about future sales activity, which should be considered as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are generated.

Financial assets that are held within a business model whose objective is to hold assets to collect contractual cash flows (the "hold to collect" business model) and their contractual terms meet the SPPI criterion will be classified at amortised cost. Those debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling the asset (the 'hold to collect and sell' business model) and their contractual terms meet the SPPI criterion will be classified at FVOCI. Financial assets with contractual terms that do not meet the SPPI criterion are classified as FVTPL.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assessment whether contractual cash flows are solely payments of principal and interest

The contractual cash flow characteristics of financial assets are assessed, at product level, with reference to whether the cash flows represent SPPI. "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms that could change the contractual cash flows so that it would not meet the condition for SPPI, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Measurement categories of financial assets and liabilities

Financial Assets at amortised cost

Financial assets are classified and subsequently measured at amortised cost, unless designated under the fair value option, if the financial asset is held in a "Hold to Collect" business model and the contractual cash flows are SPPI.

At initial recognition, the financial asset is measured at fair value including any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortised cost is also reduced with any expected credit loss allowance. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

The classification relates to cash and balances with Central Bank, placements with other banks and loans and advances to customers that pass the SPPI test and debt securities held under the "Hold to collect" business model.

Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI)

Debt Instruments are classified and measured at fair value through other comprehensive income (FVOCI), unless designated under the fair value option, if the financial asset is held in a "Hold to Collect and Sell" business model and the contractual cash flows are SPPI.

Upon subsequent measurement of FVOCI a gain or loss on debt instruments shall be recognised in other comprehensive income, except for impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the debt instrument is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

Financial Assets at Fair Value through Profit or Loss (FVTPL)

A financial asset that has been originated, acquired or incurred principally for the purpose of trading or that is not managed within a "hold to collect" or a "hold to collect and sell" business model shall be measured at FVTPL. Trading financial assets include debt and equity securities and derivatives held for trading.

Additionally, instruments for which the contractual cash flows do not meet the SPPI assessment must be measured at FVTPL even if they are managed within a business model whose objective is "hold to collect" or "hold to collect and sell".

At initial recognition, the Bank may also choose to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Upon subsequent measurement of FVTPL a gain or loss on financial asset shall be recognised in profit or loss.

Equity instruments at Fair Value through Other Comprehensive Income (FVOCI)

An equity instrument is any instrument that meets the definition of equity from the issuer's perspective. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI. For equity securities at FVOCI, other net gains and losses are recognised in OCI and are never reclassfieid to profit or loss. No impairment loss is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivatives

Derivatives include mainly forward contracts, interest rate and currency swaps.

Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument is assessed for classification in its entirety.

Financial Liabilities

Financial liabilities include deposits by banks, customer deposits and other customer accounts.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

For financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income.

Loan capital

On issuance of bonds an assessment is made to determine whether the instruments issued should be classified as financial liabilities or as compound financial instruments that contain both liability and equity elements, as these are accounted for separately, as financial liabilities and equity respectively.

Bonds issued that represent contracts that will or may be settled in the entity's own equity instruments and they are non-derivative contracts that consist an obligation for the entity to deliver a variable number of its own equity instruments are classified as financial liabilities. Furthermore, a single obligation to deliver a variable number of an entity's own equity instruments is a non-derivative obligation that meets the definition of a financial liability and cannot be subdivided into components for the purpose of evaluating whether the instrument contains a component that meets the definition of equity.

Bonds issued that are classified as financial liabilities under loan capital are initially measured at the fair value of the consideration received minus transaction costs that are directly attributable to the issue of the loan capital. Subsequently these are measured at amortised cost using the effective interest method, in order to amortise the difference between the cost and the redemption value, over the period to the earliest date that the Bank has the right to redeem the loan capital.

3.16.2. Reclassification of financial assets and liabilities
Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3.16.3. Derecognition of financial assets and financial liabilities
Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Derecognition and contract modification

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, change in interest rates, payment holidays, payment forgiveness or exchange of debt instruments.

A forborne exposure may be derecognised and the renegotiated loan recognised as a new loan at fair value when the new terms are substantially different to the original terms. The renegotiation date is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the "new" financial asset recognised is deemed to be credit impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences between the carrying amount of the original terms and the fair value at initial recognition of the "new" loan are recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss and is presented together with impairment losses. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit impaired financial assets) and is compared to the gross carrying amount of the original loan.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.16.4. Impairment of financial assets

The "Expected Credit Loss (ECL)" approach applies to all debt instruments that are measured at amortised cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees. IFRS 9 replaced the "incurred loss" impairment approach with a forward looking ECL model where provisions are taken upon initial recognition of the financial asset reflecting expectation of potential credit losses at the time of initial recognition. The Group recognised a loss allowance for such losses at each reporting date.

Measurement of ECL

The measurement of ECL reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group calculates ECL as the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). Refer to sections below for details on each of these components.

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month ECL or lifetime ECL. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). IFRS 9 requires the classification of facilities/customers in three stages, according to the increases in credit risk level, considering certain criteria:

- Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition. The Group recognises a credit loss allowance at an amount equal to 12 month expected credit losses.

- Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit impaired. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

- Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit impaired. The Bank aligned Stage 3 classification with the NPE classification consistent with the definition used for internal credit risk management purposes. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Financial assets that are credit impaired upon initial recognition are categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit impaired (POCI) assets is discussed further below.

For accounts that meet the criteria to be individually assessed for provisions the Bank reviews and validates the Stage classification using a combination of backward looking, current and forward looking indicators.

Loans and advances acquired as part of a business combination are initially recognised at fair value. The fair values on initial recognition form the gross amount of the loans irrespective of the principal amount of these loans and what constituted the gross carrying amount of these loans in the accounting records of the Seller. In cases where the acquired loans were credit impaired, the Bank includes the initial expected credit losses in the estimated cash flows when calculating the credit adjusted effective interest rate. Accordingly, the effective interest rate of a POCI would be the discount rate that equates the present value of the expected cash flows with the purchase price of the loan.

Probability of default (PD)

PD represents the likelihood of a borrower defaulting on their financial obligation in a specified time period, assuming it has not closed or defaulted since the reporting date. Projection of PDs is based on macro economic scenarios and are differentiated based on segment (e.g. Retail, SME and Corporate), and status (e.g. 0 dpd, Restructured). For the external rated exposures (e.g. Treasury and International lending), the historical default rates published by Moody's per segment are utilized. For the non external rated facilities, i.e. local loan book, the PD is estimated based on the Bank's historical default rates.

Exposure at default (EAD)

EAD represents the amount expected to be owed if a default event was to occur. The EAD is determined by calculating the expected cash flows which vary depending on the product type (e.g. revolving products). By analyzing the behavior of the product types, the behavioral maturity of these products is estimated. The utilization of the off balance sheet of revolving products is also considered in determining Credit Conversion Factor (CCF) allocation.

Loss given default (LGD)

LGD represents an estimate of the loss arising on default. It is calculated as the expected loss at default divided by EAD. LGD is based on factors that impact the likelihood and value of any subsequent write off, in which case it takes into account property prices, liquidation haircuts due to forced sale or market conditions, liquidation periods and other factors.

Forward looking information

In line with IFRS 9 impairment requirements, forward looking information, including current conditions and projections of macroeconomic and other factors, are incorporated in a range of unbiased future economic scenarios for ECL purposes. The ECL estimate incorporates the expected impact of all reasonable and supportable forward looking information, taking into consideration the macroeconomic factors. The Bank incorporated three forward looking macroeconomic scenarios in its ECL calculations process: a baseline scenario, an optimistic scenario and a pessimistic scenario. Probability weights were attributed to each scenario.
Macroeconomic input and weights per scenario are constructed by the Economic Research Department of the Bank.

NOTES TO THE FINANCIAL STATEMENTS

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The table below shows the macroeconomic variables for each scenario and the respective scenario weights:

Cyprus Economy - Macroeconomic Parameters

Scenarios		**2018**	**2019**	**2020**	**Probability weight %**
	Real GDP (% change)	4,1	3,6	3,2	
	Unemployment (%)	8,3	7,0	6,0	
Optimistic	Inflation (% change)	2,1	2,5	2,7	25%
	Residential Price Index (% change)	4,0	3,7	3,4	
	Commercial Price Index (% change)	4,1	3,6	3,3	
	Real GDP (% change)	3,2	2,7	2,5	
	Unemployment (%)	9,2	8,0	7,1	
Baseline	Inflation (% change)	1,5	1,9	2,2	50%
	Residential Price Index (% change)	2,6	2,4	2,2	
	Commercial Price Index (% change)	2,7	2,5	2,2	
	Real GDP (% change)	1,5	1,1	1,2	
	Unemployment (%)	11,0	10,2	9,5	
Pessimistic	Inflation (% change)	0,2	0,5	1,0	25%
	Residential Price Index (% change)	(0,5)	0,2	0,7	
	Commercial Price Index (% change)	(1,0)	0,2	1,	

Definition of default

IFRS 9 does not define default but requires the definition to be consistent with the definition of default used for internal credit risk management purposes. Under IFRS 9 default occurs when the borrower is unlikely to pay its credit obligations to the Group in full, and the borrower is more than 90 days past due on any material credit obligation to the Group. The Bank aligned Stage 3 classification with the European Banking Authority's (EBA) criteria for NPE classification.

Purchased or Originated Credit Impaired Financial assets (POCI)

Financial assets are considered purchased or originated credit impaired (POCI) if upon initial recognition they are purchased or originated at a deep discount that reflects evidence of impairment. Since the asset is originated credit impaired, the Bank only recognises the cumulative changes in lifetime ECL since initial recognition as a loss allowance in profit or loss until the POCI is derecognised.

Significant increase in credit risk

Under IFRS 9, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting date by considering the change in the risk of default occurring over the remaining life of the financial instrument. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward looking information. The assessment of significant increase in credit risk is key in determining when to move from measuring an allowance based on 12 month ECLs to one that is based on lifetime ECLs.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The criteria for determining whether the exposure has experienced significant deterioration in credit risk since origination are in line with Stage 2 criteria and are as follows:

- Days in Arrears: Exposures with more than 30 days in arrears,
- Forbearance flag: A performing account with an active forbearance flag in line with the European Banking Authority (EBA) definition,
- Accounts managed by recovery units (before default),
- A pooling effect is applied at a customer level which classifies as Stage 2 accounts not meeting the above criteria but fall under the same customer whose other accounts exhibit credit triggers such as those above,
- Behavioural Score: Retail and SME exposures with low behavioural score resulting from models developed by the Bank for predicting defaults/delinquencies.

Interest income recognition

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 by applying the effective interest rate (EIR). For financial assets at Stage 3, interest income is calculated by applying EIR to the amortised cost (i.e. gross carrying amount less credit loss allowance). For POCI financial assets, interest income is recognised by applying a credit adjusted EIR (CAEIR) (based on an initial expectation of further credit losses) on the amortised cost of the financial asset.

Write offs

The Group reduces, either partially or in full, the carrying amount of a financial asset when there is no reasonable expectation of recovery.

3.17. Financial instruments (policy applicable before 1 January 2018)

3.17.1. Recognition

The Group initially recognises loans and advances to customers, customer deposits and loan capital issued on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3.17.2. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest or obligation in transferred assets that is created or retained by the Group is recognised as a separate asset or liability.

If the terms of a financial asset are renegotiated or an existing asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset is derecognised and the new financial asset is recognised at fair value.

The Group derecognises a financial liability when its contractual obligation is discharged, cancelled or expired.

3.17.3. Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.17.4. Initial measurement

A financial asset or financial liability is measured initially at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

3.17.5. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

3.17.6. Fair value measurement

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market, when available for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the main factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3.17.7. Derivatives

Derivatives include mainly forward contracts, interest rate and currency swaps, credit default swaps, futures and options.

Derivatives are recognised and measured at fair value. When their fair value is positive, derivatives are included in other assets and when their fair value is negative they are included in other liabilities. Changes in the fair value of derivatives are recognised in the income statement in net gains/(losses) on disposal and revaluation of foreign currencies and financial instruments.

3.17.8. Financial assets

The Group has classified its financial assets that comprise of balances with Central Banks, placements with other banks, loans and advances to customers, investments in debt securities and investment in equity securities and collective investments units, under the following four categories. Financial assets are classified in these categories upon their initial recognition based on their characteristics and the purpose for which they were acquired.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) *Held to maturity*
Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and they do not meet the loans and receivables definition.

After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method less provisions for impairment.

Sale or reclassification of a more than insignificant amount of held to maturity investments not close to their maturity, will result in the reclassification of all held to maturity investments as available for sale, and prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.

(ii) *At fair value through profit or loss*
Financial assets at fair value through profit or loss are analysed in two categories:

Financial Assets held for trading: include financial assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term or which are part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial Assets designated as at fair value through profit or loss upon initial recognition: include financial assets initially designated in this category when this designation results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's Key Management personnel.

The changes in fair value of financial assets at fair value through profit or loss are recognised in the income statement.

(iii) Available for sale
Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified under another category of financial assets. Available for sale investments may be held for an undetermined period of time or may be sold in response to changes in market risks or liquidity requirements.

Subsequent to initial recognition, available for sale investments are measured at fair value and changes therein, other than impairment losses are recognised directly in equity. When an investment is sold or impaired, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

(iv) Loans and receivables
Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Cash and balances with Central Banks, placements with other banks and loans and advances to customers are classified under this category. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less provisions for impairment losses.

3.17.9. Loan capital
On issuance of bonds an assessment is made to determine whether the instruments issued should be classified as financial liabilities or as compound financial instruments that contain both liability and equity elements, as these are accounted for separately, as financial liabilities and equity respectively.

Bonds issued that represent contracts that will or may be settled in the entity's own equity instruments and they are non-derivative contracts that consist an obligation for the entity to deliver a variable number of its own equity instruments are classified as financial liabilities. Furthermore, a single obligation to deliver a variable number of an entity's own equity instruments is a non-derivative obligation that meets the definition of a financial liability and cannot be subdivided into components for the purpose of evaluating whether the instrument contains a component that meets the definition of equity. Bonds issued that are classified as financial liabilities under loan capital are initially measured at the fair value of the consideration received minus transaction costs that are directly attributable to the issue of the loan capital. Subsequently these are measured at amortised cost using the effective interest method, in order to amortise the difference between the cost and the redemption value, over the period to the earliest date that the Bank has the right to redeem the loan capital.

3.17.10. Customer deposits and other customer accounts

Subsequent to initial recognition, customer deposits and other customer accounts are measured at amortised cost using the effective interest method, except for certain deposits linked to derivatives that the Group has elected to classify as financial liabilities at fair value through profit or loss. Any changes in fair value in respect of deposits designated as at fair value through profit or loss are recognised in the income statement.

3.18. Impairment

(a) Financial assets (policy applicable before 1 January 2018)

At the end of each reporting period the Group assesses whether there is any objective evidence that financial assets not carried at fair value through profit or loss are impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that the borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(i) Loans and advances to customers

The Group reviews its loan portfolio, for evidence of impairment loss from past events, at both individual and collective basis. Significant loans are assessed at an individual basis. Non-significant loans are collectively evaluated for impairment losses. Significant loans that are assessed on an individual basis and found not to be impaired are also assessed on a collective basis for losses incurred but not reported (IBNR). These loans are grouped based on similar credit risk characteristics and evaluated for impairment. Impairment losses on the various groups are calculated on a collective basis. In assessing collective impairment the Group uses historical trends of the probability of default demonstrated by the relevant groups with similar risk characteristics.

Impairment loss on loans and advances to customers is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Losses are recognised in the income statement and accumulated in an impairment loss reserve as stated in Note 5.1.

When a subsequent event causes the amount of the provision for impairment loss to decrease or amounts are collected from impaired loans, the decrease in impairment loss is reversed through the income statement.

The Group writes off a loan either partially or in full, with any related allowance for impairment losses, when there is no realistic prospect of recovery of the contractual cash flows. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to the income statement.

(ii) Held to maturity investments and investments classified as loans and receivables

If there is objective evidence that an impairment loss on held to maturity investments and investments classified as loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the investment's original effective interest rate. The amount of the loss is recognised in the income statement and the carrying amount of investments is reduced.

For investments in debt securities, the principal indication of impairment is the downgrading of the credit rating of the issuer.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in the income statement.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Available for sale investments
When there is objective evidence that an available for sale investment is impaired, the cumulative loss that had been recognised in equity is reclassified from equity to the income statement. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that investment previously recognised in the income statement.

For investments in debt securities, the principal indication of impairment is the downgrading of the credit rating of the issuer. For investments in shares the main evidence of impairment is a significant or prolonged decline in the fair value below its cost. Generally, the Group considers that a reduction of 20% below cost is significant and a period of nine months is prolonged. However in special cases a smaller decrease or a shorter period may be objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss will be reversed, with the amount of the reversal recognised in the income statement. Impairment losses recognised in the income statement for impaired available for sale equity securities are not reversed through the income statement but are recognised in equity.

(a) Non-financial assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The loss from impairment of goodwill is non-reversible. The loss from impairment of other non-financial assets is reversible only to the extent that the carrying value does not exceed net carrying value that the non-financial asset would have if the impairment loss was not recognised.

3.19. Financial guarantees and loan commitments
In a business combination, acquired off balance sheet exposures that were not previously recognised in the acquiree's financial statements, but have a fair value on acquisition date, are recognised on the acquirer's financial statements and are initially measured at fair value at the date of acquisition. Off balance sheet exposures acquired by the Bank as part of the Acquisition (Refer to Note 2 and 44) consist of financial guarantee contracts and loan commitments.

Financial guarantees contracts issued by the Bank are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities. From the issuer's perspective, financial guarantee contracts fall in the scope of IFRS 9.

Loan commitments represent unused portions of authorisations to extend credit under pre-specified terms and conditions in the form of loans, guarantees or letters of credit.

Subsequent to initial recognition, issued financial guarantee contracts and commitments to provide loans at below-market rate are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less the cumulative amount of income recognised in accordance with IFRS 15 (where applicable). Other loan commitments are subsequently measured at the amount of the loss determined in accordance with IFRS 9.
Liabilities arising from financial guarantees and loan commitments are included within provisions/other liabilities.

3.20. Hedge Accounting

The Group did not apply hedge accounting in accordance with IAS 39 during the comparable period. Hedge accounting has been applied during the current financial year under IFRS 9.

IFRS 9 requires the Bank to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess hedge effectiveness. IFRS 9 also introduces new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. The Bank designates certain interest rate swaps as hedging instruments in respect of interest rate risk in fair value hedges. The hedged instruments are certain fixed rate Cyprus Government Bonds (CGBs) that were on boarded as a result of the Acquisition.

Hedging derivatives are reported as other assets and other liabilities. If a derivative is subsequently de- designated from a hedging relationship, it is transferred to financial assets/liabilities at fair value through profit or loss. For fair value hedges, the changes in the fair value of the hedged asset attributable to the risk being hedged, are recognized in the Consolidated Income Statement along with changes in the entire fair value of the derivative. When hedging interest rate risk, any interest accrued or paid on both the derivative and the hedged item is reported in interest income or expense and the unrealized gains and losses from the hedge accounting fair value adjustments are reported in other income. Hedge ineffectiveness is reported in other income and is measured as the net effect of changes in the fair value of the hedging instrument.

If a fair value hedge of a debt instrument is discontinued prior to the instrument's maturity because the derivative is terminated, or the relationship is de-designated, any remaining interest rate-related fair value adjustments made to the carrying amount of the debt instrument (basis adjustments) are amortized to interest income or expense over the remaining term of the original hedging relationship. For other types of fair value adjustments and whenever a fair value hedged asset or liability is sold or otherwise derecognized, any basis adjustments are included in the calculation of the gain or loss on derecognition.

Additional information on hedge accounting is presented in Note 21.

3.21. Cash and cash equivalents

Cash and cash equivalents include cash and available for use balances with Central Banks, investment in debt securities, placements with other banks and repurchase agreements, with original maturities of less than three months.

Cash and cash equivalents are presented in the statement of financial position at amortised cost.

3.22. Repurchase agreements

Repurchase agreements represent agreements with Central Banks. Cash received under the agreements, including accrued interest, is recognised as a liability on the statement of financial position. The relevant debt securities disposed to be repurchased at a future date are not derecognised from the statement of financial position. The difference between the sales price and repurchase price is recognised as interest expense over the duration of the agreement using the effective interest rate method.

3.23. Indemnification Asset

An indemnification asset arises when the seller in a business combination is contractually obliged to indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. In other words, the seller guarantees that the acquirer's losses will not exceed a specified amount.

The indemnification asset is recognised as an asset of the Group (as the acquirer in a business combination) at the same time and on the same basis as the indemnified item. Thus, an indemnification asset is recognised by the Group at the acquisition date if and only if it relates to an indemnified asset or liability that is recognised at the acquisition date.

The indemnification asset is initially recognised at fair value. Subsequent to initial recognition, the indemnification asset is measured at amortised cost using the effective interest method. It is also subject to impairment requirements (refer to Note 3.17.4).

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In relation to the Acquisition described in Note 2 and further analysed in Note 49, the Bank has recognised the following indemnification assets:

(a) Indemnification asset – Asset Protection Scheme (APS)

The terms of the agreement relating to the acquisition of part of CCB's assets and liabilities, include an asset protection scheme (APS) provided by CCB, which has been recognised as an indemnification asset. Ex-CCB's obligations under the APS are guaranteed by the Republic of Cyprus ("RoC") pursuant to a guarantee agreement entered prior to the completion of the Acquisition between the Bank and RoC. The APS is a single contract providing credit protection to the Bank in respect of parts of the acquired loan portfolio ("covered assets") against future losses. There is no change in the recognition and measurement of the covered assets as a result of the APS, which are measured at amortised cost subsequent to the acquisition. Impairment on covered assets is assessed and charged in accordance with the Group's accounting policy for financial assets carried at amortised cost. There is no change in how gains and losses on the covered assets are recognised in the income statement or in other comprehensive income.

(b) Indemnification asset – certain off-balance items acquired

Also, in accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses (after enforcement against cash collateral at Completion) incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Liabilities assumed which include various off-balance sheet exposures. The aforementioned indemnified off-balance sheet exposures relate to issued loan commitements and financial guarantee contracts. A respective indemnification asset with an amount equivalent to the estimated losses in respect of the indemnified off-balance sheet exposures has been recognised in the financial statements of the Bank.

3.24. Operating leases
3.24.1. Group as lessee

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term in "Administrative and other expenses".

3.24.2. Group as lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

3.25. Property, plant and equipment
Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. The classification of property is reviewed on a regular basis to account for any major changes in use. Owner occupied land and buildings are initially recognised at cost and are subsequently measured at fair value less accumulated depreciation and impairment losses. Fair value is determined from market-based valuations undertaken by professionally qualified valuers periodically between three to five years. Plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes all expenditure that is directly attributable to the acquisition of the asset.

Depreciation for property, plant and equipment is recognised in the income statement on a straight line basis over the estimated useful lives of the assets. Land is not depreciated.

The depreciation rates used are as follows:

Buildings	2%
Leasehold improvements	20%
Plant and equipment	10% to 25%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Gains and losses on disposal of property, plant and equipment, that are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are included in the income statement when the item is derecognised.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in the Statement of Comprehensive Income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

3.26. Property revaluation reserve

Any surplus arising on the revaluation of land and buildings is credited to the property revaluation reserve that is included in equity. If, after a revaluation, the depreciation charge is increased, then an amount equal to the increase (net of deferred taxation), is transferred annually from the property revaluation reserve to revenue reserves. Upon disposal of revalued property, any relevant accumulated revaluation surplus which remains in the property revaluation reserve is also transferred to revenue reserves.

3.27. Investment property

Investment property, comprises of properties which are not occupied by the Group and are held for rental yields and/or capital appreciation. Investment property is initally measured at cost, including transaction cost, and subsequently at fair value with any change therein recognised in the income statement.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Transfers to or from the investment property are made only when there is a change in use.

3.28. Stock of properties held for sale

Assets are classified as stock of properties held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This category includes property acquired in satisfaction of debt as well as own property which the Group no longer uses and intends to sell.

The Group, in its normal course of business, repossesses properties through debt to asset swaps and/or through foreclosures. These properties are held either directly or by entities set up and controlled by the Bank (Special Purpose Vehicle(s) “SPV”) for liquidation optimisation purposes. The SPV can be either a “single property owner” or “multi property owner”.

Stock of properties held for sale is recognised in the statement of financial position and is included in other assets, reflecting the substance of these transactions. The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of properties held for sale are measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the period in which the write-down occurs. Any reversal is recognised in the income statement in the period in which the reversal occurs.

Profit or loss from disposal of stock of properties held for sale, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

3.29. Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Bank is committed to a sale plan involving loss of control of a subsidiary, the total assets and liabilities of that subsidiary are classified as held for sale, regardless of whether non-controlling interest in its former subsidiary after the sale is retained. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on initial classification and gains or losses from subsequent measurement are recognised in the income statement. A gain is only recognised to the extent that it is not in excess of the cumulative impairment loss that has been recognised. Non-current assets held for sale are not depreciated once they have been classified under this category.

Loans and advances to customers classified as held for sale are loans and advances which management is committed to sell and has proceeded with an active programme to complete this plan.

3.30. Intangible assets

Goodwill
Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entities at the date of acquisition. When the excess is negative (negative goodwill) is recognised immediately in the income statement.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. The carrying amount of goodwill is reviewed for impairment at least on an annual basis.

Computer software
Computer software is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software estimated at five years.

Present value of acquired in-force business (PVIF)
PVIF represents agents' portfolios acquired separately. PVIF is initially recognised at cost. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses. The intangible asset is amortised over the useful life of the acquired in-force policy during which future premiums are expected, which is typically determined at 4 years, and is recognised in the income statement. PVIF is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. PVIF is derecognised when the related contracts are settled or disposed of.

Other Intangible Assets
In accordance with IFRS 3, the acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in a business combination at their acquisition date fair values. An intangible asset is recognised only if it is probable that the expected future economic benefits attributable to the asset will flow to the Bank and its cost can be measured reliably. Subsequently, amortisation is charged to profit or loss over the assets' estimated economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation. The estimated useful economic lives of the following intangible assets are as follows:

Core deposits	10 years
Purchased credit cards and overdrafts	5 years
Transitional Service Agreement	15 months

Core deposits
As per the agreement for the acquisition of part of CCB's banking operations, the Bank on-boarded some short-term deposits (e.g. current accounts) with credit balances over medium-to-long periods that carry lower interest rates compared to other medium-to-long term accounts. In such cases, an intangible asset was recognised since the Bank benefits from such lower interest expense, compared to the interest expense that would accrue to the bank should the borrowers have deposited the core amount in a term deposit.

Customer relationships (Purchased credit cards and overdrafts)
An additional intangible was recognised from the on-boarding of loans with revolving nature such as overdrafts and credit card accounts. Customers on-boarded by the Bank are expected to continue utilize their overdraft and credit card accounts in the future, creating an additional benefit to the Bank.

HELLENIC BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transitional Service Agreement

As part of the Transaction, the Bank and CCB have signed a Transitional Services Agreement under which the latter will be providing support services to the Bank during the 15-month integration / transitional period. Although the Bank will be paying a fee to cover for OPEX associated with the provision of running expenses, for the transitional services per se, as well as the associated personnel costs and central support costs, the Bank will be paying a nominal fee of €1. The fact that only a nominal fee of €1 will be payable by the Bank for these services, gives rise to an economic benefit (intangible asset) for the Bank.

Intangible assets are derecognised from the statement of financial position at the time of disposal or when no economic benefits are expected from it.

Intangible assets are reviewed for impairment when events relating to changes to circumnstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

3.31. Share capital

The difference between the issue price of share capital and its nominal value is recognised in the share premium reserve.

Expenses incurred from increase of authorised capital and issue of share capital are directly recognised in equity in the same year.

Any differences emerging from a reduction of the nominal value of share capital is transfered from share capital to a reduction of share capital reserve.

3.32. Own shares reserve

Shares of the Bank held by the Group's subsidiaries are deducted from the equity on their purchase. When own shares are sold or reissued subsequently, no gain or loss is recognised in the consolidated income statement.

3.33. Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings

Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings are recognised when:

(a) the Group has a present obligation (legal or constructive) as a result of a past event,

(b) an outflow of resources embodying economic benefits to settle the obligation is probable and

(c) a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the facts and circumstances of any litigation or arbitration proceedings. When a separate liability is measured, the most likely outcome may be considered the best estimate of the liability.

Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

Where the effect of the time value of money is material, the amount of the provision is the present value of the estimated future expenditures expected to be required to settle the obligation.

Where an outflow of resources embodying economic benefits to settle the obligation is possible, a contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

3.34. Provisions to cover credit risk resulting from commitments and guarantees

The Group enters into various contingent liabilities. These include acceptances and endorsements, guarantees, undrawn formal standby facilities, undisbursed loans amounts and other commitments. Although these liabilities are not recognised in the consolidated statement of financial position, they expose the Group to credit risk. To cover the credit risk a provision is calculated and recognised in other liabilities in the consolidated statement of financial position with a corresponding charge in the consolidated income statement under ''Impairment losses and provisions to cover credit risk''.

NOTES TO THE FINANCIAL STATEMENTS
3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.35. Comparatives

Comparatives presented in the Financial Statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

Following the Acquisition, the financial results of the Group for the year ended 31 December 2018 are not comparable with previous financial results.

4. IFRS 9 TRANSITION IMPACT ANALYSIS

4.1. Changes in accounting policies and impact of adoption

The Group has applied the requirements of IFRS 9 retrospectively as of 1 January 2018 by adjusting the opening statement of financial position and opening equity at 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures; accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and is therefore not comparable to the information presented for 2018 under IFRS 9 (marked by N/A in the relevant notes). Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 were recognised in the opening retained earnings and other reserves of the current period.

The implementation of IFRS 9 as of 1 January 2018, led to a net reduction in the opening balance of the equity of the Group of €33,7 million (Bank: €33,6 million), net of taxes, representing:

- An increase of €1,9 million related to classification and measurement requirements, other than impairment;
- A reduction of €38,6 million related to the new impairment requirements (expected credit losses (ECL) model); and
- An increase of €3 million related to deferred tax impacts.

Set out below are the aspects of the changes following the adoption of IFRS 9 with regards to classification and measurement, impairment and hedge accounting as well as an overview of the impact on opening shareholder's equity. A reconciliation between IAS 39 reported numbers as included in the year-end Financial Statements 2017 to IFRS 9 numbers as adopted from 1 January 2018 is also included below. Comparative periods in the disclosures of the Financial Statements are presented in accordance with IAS 39.

NOTES TO THE FINANCIAL STATEMENTS
4. IFRS 9 TRANSITION IMPACT ANALYSIS (CONTINUED)

(a) Classification and measurement of financial instruments

On adoption of the standard on 1 January 2018, the impact of the changes related to the classification and measurement of financial assets held as at 1 January 2018 (excluding impairment) is €1,9 million and is analysed as follows:

				The Group		The Bank	
	Note	**Classification under IAS 39**	**New classification under IFRS 9**	**Carrying amount IAS 39 €'000**	**New carrying amount IFRS 9 (before ECLs) €'000**	**Carrying amount IAS 39 €'000**	**Carrying amount IFRS 9 €'000**
Cash and balances with Central Banks	17	Loans and Receivables	Amortised cost	2.293.754	2.293.754	2.293.753	2.293.753
Placements with other banks	18	Loans and Receivables	Amortised cost	348.176	348.176	336.273	336.273
Loans and advances to customers	19	Loans and Receivables	Amortised cost	2.766.738	2.766.738	2.766.738	2.766.738
Debt securities	20	Held to maturity	Amortised cost	107.457	107.457	107.457	107.457
Debt securities	20	Held to maturity	FVOCI*	38.942	40.678	38.942	40.678
Debt securities	20	Loans and Receivables	Amortised cost	193.260	193.260	193.260	193.260
Debt securities	20	Available for sale	FVOCI	678.431	678.431	678.431	678.431
Debt securities	20	Available for sale	Amortised cost	812	724	-	-
Equity securities	23	Trading (FVTPL**)	FVOCI	450	450	450	450
Equity securities	23	Available for sale	FVOCI	6.250	6.452	6.250	6.452
Equity and other securities and collective investment units	23	Available for sale	FVTPL	23.337	23.337	23.531	23.531
Derivatives	38	Trading (FVTPL)	FVTPL	229	229	229	229
				6.457.836	**6.459.686**	**6.424.314**	**6.426.252**

*FVOCI: Fair value through other comprehensive income

**FVTPL: Fair value through profit and loss

There were no changes to the classification and measurement of financial liabilities.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table provides a comprehensive overview of the impact to the total assets under changes in classification and measurement and changes in impairment allowances from IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018. The total remeasurement loss of €36,7 million, which was recognised in opening reserves, consists of an increase in allowances of €38,6 million and a positive increase of €1,9 million from reclassifications and remeasurements of financial assets.

NOTES TO THE FINANCIAL STATEMENTS
4. IFRS 9 TRANSITION IMPACT ANALYSIS (CONTINUED)

	Reference	IAS 39 Carrying amount (i) 2017 €'000	Reclassifications (ii) €'000	Remeasurements (iii) €'000	IFRS 9 carrying amount (iv) (iv=i+ii+iii) 1 January 2018 €'000
Fair Value through profit or Loss (FVTPL)					
EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS					
Opening balance under IAS 39		450	-	-	-
Addition: From AFS	(A)	-	23.337	-	-
Subtraction: To FVOCI	(B)	-	(450)	-	-
Closing balance under IFRS 9					23.337
DERIVATIVES					
Opening balance under IAS 39		229			
Closing balance under IFRS 9					229
Total financial assets measured at FVTPL		**679**	**22.887**	**-**	**23.566**
Fair Value through Other Comprehensive Income (FVOCI)					
EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS					
Opening balance under IAS 39		29.587	-	-	-
Remeasurement: From AFS to FV		-	-	202	-
Addition: From FVTPL	(B)	-	450	-	-
Subtraction: To FVTPL	(A)	-	(23.337)	-	-
Closing balance under IFRS 9					6.902
DEBT SECURITIES					
Opening balance under IAS 39		679.243	-	-	-
Addition: From Amortised cost	(C)	-	38.942	-	-
Subtraction: To Amortised Cost	(D)	-	(812)	-	-
Remeasurement: from amortised cost to FV		-	-	1.736	-
Remeasurement: ECL allowance		-	-	(740)	-
Remeasurement: ECL allowance (FV adjustment)		-	-	740	-
Closing balance under IFRS 9					719.109
Total financial assets measured at FVOCI		**708.830**	**15.243**	**1.938**	**726.011**
Amortised Cost					
DEBT SECURITIES					
Opening balance under IAS 39		339.659	-	-	-
Subtraction: To FVOCI	(C)	-	(38.942)	-	-
Addition: From FVOCI	(D)	-	812	-	-
Remeasurement: from FVOCI to amortised cost		-	-	(88)	-
Remeasurement: ECL allowance		-	-	(634)	-
Closing balance under IFRS 9					300.807
LOANS AND ADVANCES TO CUSTOMERS					
Opening balance under IAS 39		2.766.738	-	-	-
Remeasurement: ECL allowance		-	-	(37.931)	-
Closing balance under IFRS 9					2.728.807
CASH AND BALANCES WITH CENTRAL BANKS					
Opening balance under IAS 39		2.293.754	-	-	-
Remeasurement: ECL allowance		-	-	(8)	-
Closing balance under IFRS 9					2.293.746
PLACEMENTS WITH OTHER BANKS					
Opening balance under IAS 39		348.176	-	-	-
Remeasurement: ECL allowance		-	-	(75)	-
Closing balance under IFRS 9					348.101

NOTES TO THE FINANCIAL STATEMENTS
4. IFRS 9 TRANSITION IMPACT ANALYSIS (CONTINUED)

Reference	IAS 39 Carrying amount (i)	Reclassifications (ii)	Remeasurements (iii)	IFRS 9 carrying amount (iv) (iv=i+ii+iii)
	2017			1 January 2018
	€'000	€'000	€'000	€'000
Opening balance under IAS 39	348.176	-	-	-
Remeasurement: ECL allowance	-	-	(75)	-
Closing balance under IFRS 9				348.101
Total financial assets at amortised cost	**5.748.327**	**(38.130)**	**(38.736)**	**5.671.461**
PROVISIONS TO COVER CREDIT RISK RESULTING FROM COMMITMENTS AND GUARANTEES				
Opening balance under IAS 39	(11.503)	-	-	-
Remeasurement: ECL allowance	-	-	78	-
Closing balance under IFRS 9				(11.425)
TOTAL	**6.446.333**	**-**	**(36.720)**	**6.409.613**

	IAS 39 carrying amount (i)	IFRS 9 carrying amount (iv)
	2017	1 January 2018
	€'000	€'000
Cash and balances with Central Banks	2.293.754	2.293.746
Placements with other banks	348.176	348.101
Loans and advances to customers	2.766.738	2.728.807
Debt securities	1.018.902	1.019.916
Equity securities and collective investment units and other securities	30.037	30.239
Derivatives	229	229
Financial guarantees and loan commitments issued	11.503	11.425

The Group's accounting policies on the classification and measurement and impairment under IFRS 9 are set out in Note 3. The Group's accounting policies on the use of estimates and judgements under IFRS 9 are set out in Note 5.1 and 5.6.

The split of the expected credit loss (ECL) to different stages of the Group's loan portfolio is analysed in Note 19.

Regulatory capital position

On 12 December 2017, a new Regulation (EU) 2017/2395 of the European Parliament and of the Council was issued, amending Regulation (EU) No 575/2013, as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds.

According to the Regulation, the Bank had the option to add back in its CET1 capital a portion of the increased expected credit loss provisions over a transitional period or recognise the full impact of IFRS 9 on capital and leverage ratios from 1 January 2018. The transitional period has a maximum duration of five years and started in 2018. The portion of expected credit loss provisions that can be included in CET 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.

The amount subject to transitional provisions which will be added back to the CET1 capital will be derived from the following:

- Increased credit loss provisions from the implementation of the IFRS 9 on 1 January 2018 compared to the credit loss provisions under IAS39 net of any tax impact.

NOTES TO THE FINANCIAL STATEMENTS
4. IFRS 9 TRANSITION IMPACT ANALYSIS (CONTINUED)

- Additional credit loss provisions incurred after IFRS 9 implementation which rise unexpectedly due to a worsening macroeconomic outlook from non-credit impaired financial assets.

The Bank adopted both above transitional arrangements and informed the competent authority accordingly. The impact on the Group's CET 1 ratio and leverage ratio is presented in Note 51.6.

5. USE OF ESTIMATES AND JUDGEMENTS

The preparation of Financial Statements requires Management to make use of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the results of which form the basis of making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Therefore, they involve risks and uncertainties as they relate to events and depend on circumstances that will occur in the future. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The accounting policies that are deemed critical to the Group's results and financial position and which involve significant estimates and judgments are set out below:

5.1. Measurement of expected credit loss (ECL) allowance

WWIFRS 9 replaced the "incurred loss" impairment approach with a forward-looking ECL model. The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires management's judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The assumptions used are based, to the extent possible, on data and evidence. Whenever sufficient data is not available, the impairment calculation incorporates assumptions based on management judgement. Further information about the judgements involved is included in Note 3, sections "Measurement of ECL" and "Significant increase in credit risk" of IFRS 9.

The Group evaluates individually loans, including loans of economic groups, that are individually significant based on certain thresholds set by the Bank. It collectively assesses loans that are not individually significant and loans which were individual assessed as Stage 1.

Individually assessed loans (Stages 2 and 3)

The amount of impairment loss on the value of loans and advances to customers which are examined on an individual basis, is measured for a) financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive); b) financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows. In cases where the interest rate of the loan is variable, the original effective interest rate is measured with reference to the initial margin corresponding to the current base rate of the interest rate and the value of the current base rate at the reporting date. The estimated future cash flows are based on assumptions about a number of factors and therefore the actual losses may be different. To determine the amount of impairment loss on the value of loans and advances to customers, judgment is involved regarding the amount and timing of estimated future cash flows. The estimated future cash flows include any expected cash flows from the borrower's operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable. The timing of these cash flows is estimated on a case by case basis.

Collectively assessed loans (Stages 1 to 3)

For the calculation of impairment loss on a collective basis, loans and advances are grouped based on similar credit risk characteristics and appropriate models are applied that take into account the recent historical loss experience of each group

NOTES TO THE FINANCIAL STATEMENTS
5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

with similar credit risk characteristics adjusted for current conditions using appropriate probabilities of default and loss given default. The grouping considers factors such as the customer type, industry, product, days in arrears and restructuring status. Restructured facilities are classified in a separate group.

To measure ECL, the Group uses: (a) Exposure at default (EAD), (b) probability of default (PD), (c) Loss given default (LGD). These calculations include estimates and the use of judgment to supplement, assess and adjust accordingly the historical information and past experience events which determine the parameters and the measurement of ECL as at the reporting date. The main assumptions used to estimate loss given default relate to the treatment of property collateral such as the time needed for collateral liquidation and the liquidation discount at the point of sale. For loans and advances assessed individually, the specifics of each case are taken into consideration in determining the property parameters. In addition, management is required to exercise significant judgement in determining staging criteria, criteria for significant increase in credit risk as well as establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The Bank has taken significant steps in enhancing its provisioning methodology. Since 2016, the Bank improved its property collateral database that allowed a more granular approach in provisioning. The new collateral information which was incorporated both in collective and individual provisioning takes into account the specificities of the properties by segmenting them into various property types and sub types as well as by classifying them by district and location within each district. Different liquidation discounts are applied depending on the type and location of each collateral with the liquidation discount including cost ranging from 15% for a limited number of prime property types to 40% for non-prime properties. The resulting average liquidation discount for the collectively assessed portfolio is approximately 27% including costs.

In addition, since June 2017 the Bank has proceeded with certain amendments to the parameters and assumptions for estimating the recoverable amount of property collateral values used in its provisioning methodology, relating primarily to the elimination of forward looking indexation in its collateral prices and the adoption of higher liquidation discounts at the point of sale for selected categories of non-prime properties. The amendments were made in the context of the International Financial Reporting Standards and take into account the Bank's accelerated plans for resolving problem loans, latest market developments, as well as the ongoing regulatory engagement with the European Central Bank (ECB) as part of the 2017 Supervisory Review and Evaluation Process (SREP).

Further improvements to the collective provisioning methodology relate to the alignment of the status of the portfolio and the NPL management strategies pursuit by the Bank with the collective provision assessment by differentiating the liquidation period assumptions. The average liquidation period of the collateralised non-performing collectively assessed portfolio is currently approximately 5,2 years (2017: 4,6 years) while for performing loans, the liquidation period assumption is 5 years (2017: 5 years).

Accumulated impairment losses of the Group's loans and advances are inherently uncertain due to their sensitivity to economic and credit conditions of the environment in which the Group operates. Conditions are affected by many factors with a high degree of interdependency and there is not one single factor to which these conditions are particularly sensitive. It is possible for the actual conditions in the next financial year to differ significantly from the assumptions made during the current year, so that the carrying amount of loans and advances to be adjusted significantly.

For the purposes of providing an indication of the change in accumulated impairment losses as a result of changes in key loan impairment assumptions, the Bank utilised the collective models on the default loan and advances portfolio with reference date 31 December 2018, to carry out a sensitivity analysis. The simulated impact on the provisions for impairment of loans and advances is presented below:

NOTES TO THE FINANCIAL STATEMENTS
5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

Change on key assumptions	Increase/(decrease) on accumulated impairment losses on the total default loan and advances portfolio €' million
Increase the liquidation period by 1 year	32
Decrease the liquidation period by 1 year	(32)
Increase the liquidation discount (i.e. reduce the recoverable amount from collateral) by 5%	45
Decrease the liquidation discount (i.e. increase the recoverable amount from collateral) by 5%	(43)

5.2. Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings

In order to assess whether a provision must be recognised, the Group examines whether there is a present obligation (legal or constructive) as a result of a past event, for which an outflow of resources embodying economic benefits is probable and a reliable estimate for the amount of the obligation can be made.

The Group obtains legal advice on the value of the provision of specific complaints and/or claims and arbitration.

The amounts recognised as provisions are the best estimates of the expenditure required to settle the present obligation at the end of the reporting period. When a separate liability is measured, the most likely outcome may be considered the best estimate of the liability. Due to the risks and uncertainties surrounding the facts and circumstances of any pending litigations or complaints and/or claims or cases subject to arbitration proceedings, a significant degree of judgement is required for the estimation of the relevant outcome.

5.3. Impairment of goodwill and investments in subsidiaries and associated companies

The process of identifying and evaluating impairment of goodwill and investments in subsidiaries and associated companies, is inherently uncertain because it requires significant Management judgement in making a series of estimates, the results of which are highly sensitive to the assumptions used. The review of impairment represents Management's best estimate of the factors below.

Firstly, significant Management judgement is required in estimating the future cash flows of the acquired entities. The values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter.

The cash flow forecasts are compared with actual performance and verifiable economic data in future years. However, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects. Additionally, the cost of capital used to discount future cash flows, can have a significant effect on the entity's valuation. For the Special Purpose Vehicles (SPVs), the principal indication of impairment is a decrease in the carrying value of the underlying properties. The carrying value is established using valuations carried out by independent qualified valuers who apply internationally accepted valuation models, use their market knowledge and professional judgement.

Any impairment of goodwill of the acquired entities affects the Group's results while any impairment of investments in subsidiaries and associated companies affects the Bank's results. PVIF are tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement.

5.4. Impairment of other intangibles

Other intangible assets mainly include assets acquired from the business combination with CCB. The determination of the recoverable amount in the impairment assessment of other intangibles requires estimates based on prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgements and assumptions. The fair value of the Bank's other intangibles assets is determined by discounting estimated future net cash flows generated by the asset which require the use of different assumptions for the expectations of future cash flows, attrition rates, estimation of useful economic lives and the discount rate. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers these estimates to be critical.

5.5. Fair value of investments

The best evidence of fair value of investments 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 majority of valuation techniques employed by the Group use only observable market data and thus the reliability of the fair value measurement is relatively high. The Group uses models with unobservable inputs only for the valuation of non-listed investments. In these cases, the Group takes into account, amongst others, the net positions of the entities in which the investment has been made, as well as estimates of the Group's Management to reflect uncertainties in fair values resulting from the lack of data and significant adverse changes in technology, market, economic or legal environment in which the entity operates.

5.6. Business Models and SPPI

IFRS 9 requires the classification of financial assets to be determined based on both business model used for managing the financial assets and whether the contractual cash flows generated by an asset constitute solely payments of principal and interest (SPPI).

The assessment of the business model requires judgement based on the facts and circumstances at the date of the assessment. The Bank has considered both quantitative and qualitative factors in its assessment such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's management as well as the frequency, volume and timing of sales in prior periods. Detailed information about the basis of business model assessment are provided in Note 3.

If a financial asset is held in either a "hold to collect" or a "hold to collect and sell" business model, then an assessment to determine whether the contractual cash flows are SPPI is required. In making this assessment the Group exercises judgement in considering whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and profit margin.

5.7. Impairment of available for sale and held to maturity investments

Available for sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgement by Management. The factors which are taken into account in these estimates include the percentage reduction in the cost or impaired cost, as well as the net positions of the entities.

Available for sale and held to maturity investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The identification of impairment requires judgement by Management. An individual assessment of impairment is carried out on debt securities whose fair value as at the date of the financial position has significantly decreased as well as the issuer has been downgraded.

5.8. Negative goodwill

The Group accounted for the acquisition of a business from CCB using the acquisition method. In accordance with IFRS 3 (Refer to Note 3), all identifiable assets and liabilities acquired have to be measured at their fair value at the time of acquisition. These fair values also represent the amounts upon initial consolidation. The difference between the purchase price and the balance of assets and liabilities acquired and measured at fair value is recognised as negative goodwill ("gain on bargain purchase" as per IFRS 3) in the income statement, and directly increases the equity of the Bank. For the determination of the fair value of the identifiable assets and assumed liabilities the Bank used the services of an independent international firm.

5.9. Indemnification Asset

The Bank has identified and recognised an indemnification asset relating to the APS provided by the seller (ex-CCB) in the business combination (described in Note 2 and 3.23.) and guaranteed by the RoC.
The Bank has determined that the APS is an indemnification asset in the scope of IFRS 3 because:

- The Bank has acquired a business from CCB in accordance with IFRS 3 and it is therefore in the scope of IFRS 3;
- The APS meets the definition of an 'indemnification asset' in IFRS 3 which occurs when the seller in a business combination contractually indemnifies the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific

NOTES TO THE FINANCIAL STATEMENTS
5. USE OF ESTIMATES AND JUDGEMENTS (CONTINUED)

asset or liability. This has been concluded on the following basis:

(a) The APS is a single contract entered into between the Bank and CCB, providing credit protection in respect of a portfolio of loans acquired as part of the Acquisition. This contract is guaranteed with a Deed of Guarantee entered into between the Bank and the RoC. The Bank has determined that the unit of account is the arrangement as a whole as the two agreements (APS and APS element of the Deed of Guarantee) are considered to be linked.

(b) The "seller" may be seen to be both the ex-CCB and the RoC as the Bank will be reimbursed by either the ex-CCB or RoC.

Upon initial recognition, the Bank recognised the indemnification asset at the acquisition date measured at its acquisition date fair value. The APS asset valuation was carried out by external independent advisors and it comprises of two elements: a) the present value of the claims to be made by the Bank to the ex-CCB or the RoC in the event of APS Losses and b) the present value of fees payable from the Bank to the RoC (admission fee and guarantee fees).

The Bank has also identified and recognised an indemnification asset in relation to the off-balance sheet exposures. In accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses (after enforcement against cash collateral at Completion) incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Assumed Liabilities which include various off-balance sheet exposures. The indemnified off-balance sheet exposures relate to issued loan commitments and financial guarantee contracts.

At the end of each subsequent reporting period, the Group measures an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and, for an indemnification asset that is not subsequently measured at its fair value, management's assessment of the collectability of the indemnification asset. The Group shall derecognise the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

5.10. Properties held for sale/stock of properties held for sale

Properties held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment is considered both at the time of classification as held for sale and subsequently. Any impairment loss that arises is recognised in the income statement. A gain for any subsequent increase in the fair value less costs to sell of an asset can be recognised in the income statement to the extent that it is not in excess of the cumulative impairment loss that has been recognised.

Stock of properties is measured at the lower of cost and net realisable value. Any write down to NRV is recognised as an expense in the period in which the write down occurs and any reversal is recognised in the income statement in the period in which the reversal occurs. The estimated sales price is determined with reference to the fair value of properties. The best evidence of fair value is a quoted price in an active market. When the market is not active the fair value is established through valuations carried out by independent qualified valuers who apply internationally accepted valuation models, use their market knowledge and professional judgement. This exercise, depending on the nature of the underlying asset and available market information involves a degree of uncertainty. The determination of costs to sell may also require professional judgement which involves a degree of uncertainly.

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

The main method used in the estimation of fair value is the comparable approach which uses prices and other relevant information generated by market transactions involving similar assets adjusted for time and property (physical and legal) characteristics. This is sometimes combined with the depreciated replacement cost method which is the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In addition to the comparable approach, the Group also utilises in certain cases the income capitalisation approach which converts future amounts (cash flows or income and expenses) to a single current (discounted) amount.

5.12. Taxation

The Group is subject to corporation tax in the countries in which it operates. Estimates are required in determining the provision for corporation taxes as at the date of the financial position.

Following the completion of the Acquisition and the Purchase Price Allocation (PPA) exercise the tax treatment of the negative goodwill had to be established. For the purposes of the preparation of the financial statements the gain has been treated as non taxable. According to the provisions of the Cyprus Income Tax Law any amount or consideration received for goodwill, after deducting costs associated with the acquisition of that goodwill, is considered taxable. The gain recognised can not be considered as taxable goodwill. It relates exclusively to non realised profits from the revaluation of the assets and liabilities acquired, and to that extent it has been treated as non taxable. The Bank will be subject to taxation upon realization of this profit depending on its nature. There is a possibility that the Cyprus Tax Commissioner may challenge the tax treatment of the gain. The final tax treatment of this gain will be confirmed with the Cyprus Tax Commissioner through a tax ruling.

Deferred tax assets arising from tax losses are recognised to the extent that it is probable that the Group will generate future taxable profits against which these losses can be utilised. The recognition of deferred tax asset in respect of tax losses is based on judgements made in relation to the probability, sufficiency and timing of future taxable profits as well as the applicability of future tax planning strategies. These judgements rely on historical available information and estimations regarding, among others, macroeconomic conditions, changes in interest rates, real estate prices and demand, the level of the non- performing exposures and the expected results of operations based on the business model and strategic plan of the Group. The parameters underlying the judgements made are subject to uncertainty and may result in changes in the measurement of deferred tax asset compared to initial estimates.

Aiming at fulfillment of undertakings concerning harmonisation with EU VAT legislation given by the Republic on accession to the EU, the House of the Representatives approved amendments to the Cyprus VAT Legislation which were published in the Official Gazette on 13 November 2017, and provide that:

- With effect from 2 January 2018, transactions involving supply of undeveloped buildable land, which are carried out as an economic activity, are subject to VAT.
- With effect from 2 January 2018, VAT imposed on supply of property within the loan restructuring process and transfers to the lender within the foreclosures procedure, is settled through the reverse charge mechanism.
- With effect from 13 November 2017, VAT is imposed on lease and/or rental income from immovable property used in the exercise of economic activities that are subject to VAT. The "option not to tax" may be exercised under certain prerequisites published by the Commissioner of Taxation in the Government Gazette.

The above amendments affect the value of the portfolio of immovable property either owned by the Group or held as collateral, depending on the location of each property, the legal status and nature of activities carried out by its owner and prevailing market conditions.

In addition to the above amendments in the VAT Law certain amendments were made to tax laws, stamp duty law and Land Registry legislation in order to broaden the definition of loan restructuring.

- With effect from 17 July 2018 loan restructurings include disposals of immovable property to third, unrelated to the debtor, parties to the extend the disposal proceeds are used to reduce loan facilities which are considered NPLs and which were also rendered NPLs on or before 31 December 2015.

- However with the above amendment and with effect from 17 July 2018 the tax exempt loan restructurings involving direct acquisition of immovable property by the Banking Institutions have been also restricted to those relating to loans which were rendered NPLs on or before 31 December 2015.

- With effect from 15 March 2019 the definition of the term debtor has been amended so as to include related to the debtor persons, as per the Law provisions (article 33) in order to accommodate within the loan restructurings, transactions with immovable property owned solely by related to the debtor persons.

NOTES TO THE FINANCIAL STATEMENTS

6. INTEREST INCOME

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Interest income calculated using the effective interest method				
Financial assets at amortised cost				
Interest income from placements with other banks	**6.884**	6.170	**6.834**	6.070
Interest income from loans and advances to customers	**177.121**	128.964	**177.136**	128.965
Interest income from debt securities	**38.082**	9.803	**38.082**	9.803
Financial assets at fair value				
Interest income from debt securities at fair value through other comprehensive income	**12.922**	N/A	**12.922**	N/A
Interest income from debt securities available for sale	**N/A**	14.622	**N/A**	14.620
	235.009	159.559	**234.974**	159.458
Other interest income				
Interest income from other financial instruments	**5.916**	6.317	**5.916**	6.317
	240.925	165.876	**240.890**	165.775

Interest from loans and advances to customers include interest on the net carrying amount of impaired loans and advances amounting to €40,6 million (31 December 2017: €43,4 million).

Other interest income relates to interest on derivatives which are measured at FVTPL, mainly interest rate swaps and foreign currency forwards.

7. INTEREST EXPENSE

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Interest expense on deposits by other banks	**639**	278	**639**	264
Interest expense on amounts due to Central Banks	**10.052**	7.995	**10.052**	7.995
Interest expense on customer deposits and other customer accounts	**43.788**	24.060	**43.856**	24.176
Interest expense on loan capital	**161**	242	**161**	242
Interest expense on other financial instruments	**1.818**	2.123	**1.818**	2.123
Interest expense on indemnification assets	**286**	-	**286**	-
	56.744	34.698	**56.812**	34.800

8. FEE AND COMMISSION INCOME

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Banking fees and commissions	**52.649**	47.361	**54.928**	49.693
Commissions from insurance operations	**1.794**	2.011	-	-
Custodian services and asset management fees	**846**	767	**846**	767
Other fees and commissions	-	17	-	-
	55.289	50.156	**55.774**	50.460

NOTES TO THE FINANCIAL STATEMENTS

9. FEE AND COMMISSION EXPENSE

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Banking fees and commissions	**3.521**	2.151	**3.521**	2.151
Commissions from insurance operations	**2.182**	1.965	-	-
Other fees and commissions	**822**	752	**300**	244
	6.525	4.868	**3.821**	2.395

10. NET GAINS ON DISPOSAL AND REVALUATION OF FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Gain on disposal and revaluation of foreign currencies	**9.008**	9.386	**9.008**	9.386
Gain on disposal of debt securities and other financial instruments:				
Instruments available for sale	**N/A**	1.332	**N/A**	1.360
Instruments held for trading	**N/A**	2	**N/A**	2
ΣInstruments at fair value through other comprehensive income	**18.290**	N/A	**18.290**	N/A
Surplus on revaluation of debt securities and other financial instruments::				
Instruments held for trading	**N/A**	1.558	**N/A**	1.558
Instruments at fair value through profit and lossv	**(32)**	N/A	**(32)**	N/A
Loss on disposal of equity securities::				
Instruments available for sale	**N/A**	(21)	**N/A**	-
Surplus on revaluation of equity and other securities				
Instruments held for trading	**N/A**	156	**N/A**	156
Instruments at fair value through profit and loss	**347**	N/A	**571**	N/A
Hedging relationship				
CGB-Hedged item	**5.013**	N/A	**5.013**	N/A
Interest rate swap-Hedging instrument	**(5.531)**	N/A	**(5.531)**	N/A
	27.095	12.413	**27.319**	12.462

The gain on disposal and revaluation of foreign currencies of the Group results from the translation of monetary assets denominated in foreign currency at the reporting date and the realised gains on foreign currency transactions that were settled during the year.

11. OTHER INCOME

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Dividend income	**789**	1.000	**3.593**	4.279
Net income from insurance operations	**14.982**	15.377	-	-
Gain from the disposal of stock of properties held for sale	**8.028**	5.610	**8.648**	3.435
Sundry income	**5.334**	23.597	**4.174**	22.241
	29.133	45.584	**16.415**	29.955

Sundry income for the year ended 31 December 2017 includes a net gain of €19.012 thousand from the disposal of the Bank's Non-Performing Loan (NPL) and Real Estate (REO portfolio) Management Business (refer to Note 25).

NOTES TO THE FINANCIAL STATEMENTS

12. STAFF COSTS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Salaries	**73.053**	72.570	**68.498**	67.801
Employer's contributions for social insurance etc.	**8.959**	8.681	**8.664**	8.323
Provident Fund Contributions	**5.548**	5.673	**5.370**	5.447
	87.560	86.924	**82.532**	81.571

The Group participates in two different defined contribution retirement plans.

The terms of employment of the majority of Group employees are in accordance with the provisions of the Collective Agreement between the Cyprus Banks Employers Association and the Cyprus Union of Bank Employees and between the Bank and the Cyprus Union of Bank Employees under which a defined contributions Provident Fund for the Hellenic Bank Group staff was set up and since then operates in accordance with Cyprus legislation. In accordance with the Collective Agreement, and following the conclusion on 31 July 2017 of a new agreement amending the Collective Agreement, the employers' contributions to the Provident Fund for 2017 and 2018 were set at 9%. The employer contributions to the Provident Fund for the CCB employees transferred to the Bank is 7%.

A number of staff are employed on the basis of employment contracts that are not in accordance with the terms of the Collective Agreement. During 2015 these employees became members of a multi-employer defined contribution Provident Funds of their choice, to which the employer contributes 9% of the employee's gross salary. During 2018 an amount of €148 thousand (31 December 2017: €178 thousand) was charged to the income statement.

Group obligations towards the employees' retirement benefits are limited to payment of the contributions to each Provident Fund. Employer's contributions due for payment are recognised as staff costs.

On 31 December 2018, the number of staff employed by the Group was 2.495 (31 December 2017: 1.535 employees) and by the Bank 2.385 (31 December 2017: 1.430 employees). The average number of staff employed by the Group and the Bank for 2018 was 1.943 and 1.839 respectively (2017: Group 1.596, Bank 1.488). Upon completion of Voluntary Early Exit Scheme (VEES) (refer to Note 13), 231 applications were approved for participation in the Scheme (equivalent to approximately 14% of the Group's personnel). As part of the Acquisition, 1.100 employees were transferred to the Bank.

13. ADMINISTRATIVE AND OTHER EXPENSES

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Impairment losses on stock of properties held for sale	**1**	200	**1**	112
Impairment losses on owner-occupied property	-	1.528	-	1.528
Operating leases of land and buildings (refer to 49.3.)	**4.121**	2.620	**4.130**	2.635
Repairs and maintenance	**10.164**	8.977	**10.006**	8.890
Consultancy and other professional services fees	**20.552**	9.875	**20.004**	9.377
Regulatory Supervisory fees	**2.326**	1.048	**2.326**	1.048
Special Levy on Credit Institutions	**12.082**	8.907	**12.082**	8.907
(Release)/provisions for pending litigations or complaints and/or claims (refer to Note 33)	**(375)**	179	**(375)**	179
Early retirement cost	-	41.354	-	38.346
Servicer's administration fees	**22.041**	9.229	**21.615**	8.694
Other administrative expenses	**32.820**	21.923	**30.351**	20.133
	103.732	105.840	**100.140**	99.849

Early retirement cost

The Group within the context of its strategic plan announced, on 20 November 2017, a VEES. The VEES was in line with the rules of Corporate Governance and gave staff the right to depart voluntarily from the Group, with an ex gratia amount. The VEES was effective from 20 November 2017 until 4 December 2017 (inclusive). Upon its completion, 231 applications were approved for participation in the VEES (equivalent to approximately 14% of the Group's personnel). The retirement of staff members took place progressively between December 2017 and February 2018.

NOTES TO THE FINANCIAL STATEMENTS
13. ADMINISTRATIVE AND OTHER EXPENSES (CONTINUED)

Servicer's administration fees

NPLs with a value of approximately €1,8 billion and REO portfolio with a market value of approximately €230 million are managed by APS Cyprus since 30 June 2017 in consideration for an administration fee payable by the Bank. The administration fee paid to APS Cyprus comprises of both a fixed and a variable element. The level of fees payable to APS Cyprus varies according to the progress of collections with the majority of the fees being driven by the successful resolution of the portfolio and services provided in relation to the real estate assets owned.

Consultancy and other professional services fees

Consultancy and other professional fees include cost of advisory services which resulted mainly from the engagement of various consultants in relation to the Acquisition, amounting to €10.225 thousand (refer to Note 49).

The total fees for statutory auditors included in the consultancy and other professional services fees are analysed as follows:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Audit of annual accounts	**1.704**	430	**1.604**	229
Assurance services	**612**	36	**588**	12
Tax advisory	**54**	51	**54**	51
Other non-audit services	**310**	236	**295**	214
	2.680	753	**2.541**	506

Impairment losses on owner-occupied property

Any impairment losses recognised on owner-occupied property are in line with market conditions and the characteristics of each property.

NOTES TO THE FINANCIAL STATEMENTS

14. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Impairment losses on the value of loans and advances	**N/A**	(86.130)	**N/A**	(86.130)
Provisions to cover credit risk for contractual commitments and guarantees	**N/A**	3.220	**N/A**	3.220
12 month expected credit losses on the value of loans and advances (refer to Note 19)	**(33.883)**	N/A	**(33.883)**	N/A
Lifetime expected credit losses (Stage 2) on the value of loans and advances (refer to Note 19)	**2.002**	N/A	**2.002**	N/A
Lifetime expected credit losses (Stage 3) on the value of loans and advances (refer to Note 19)	**(34.442)**	N/A	**(34.442)**	N/A
Lifetime expected credit losses on the value of purchased credit impaired (POCI) loans and advances	**7.781**	N/A	**7.781**	N/A
12 month expected credit losses on the value of debt securities (refer to Note 20)	**845**	N/A	**845**	N/A
12 month expected credit losses on the value of Balances with Central Banks and Placements with other banks (refer to 17 and 18)	**(679)**	N/A	**(649)**	N/A
12 month expected credit losses on the value of other receivables	**179**	N/A	**-**	N/A
12 month expected credit losses on the value of financial guarantees issued and loan commitments issued (refer to Note 33)	**(1.275)**	N/A	**(1.275)**	N/A
12 month expected credit losses on the value of indemnification asset	**(8)**	N/A	**(8)**	N/A
Lifetime expected credit losses (Stage 2) on the value of financial guarantees issued and loan commitments issued (refer to Note 33)	**2**	N/A	**2**	N/A
Lifetime expected credit losses (Stage 3) on the value of financial guarantees issued and loan commitments issued (refer to Note 33)	**89**	N/A	**89**	N/A
Lifetime expected credit losses on the value of purchased credit impaired (POCI) of financial guarantees issued and loan commitments issued (refer to Note 33)	**(1.114)**	N/A	**(1.114)**	N/A
Gain on derecognition of purchased credit impaired facilities	**4.456**	N/A	**4.456**	N/A
Gain on derecognition of financial guarantees and loan commitments acquired (refer to Note 33)	**2.060**	N/A	**2.060**	N/A
Amortisation of indemnification asset (refer to Note 29)	**(7.138)**	N/A	**(7.138)**	N/A
Net modification losses recongised	**(6.114)**	N/A	**(6.114)**	N/A
	(67.239)	(82.910)	**(67.388)**	(82.910)

Despite the improvement of the loan portfolio quality that lead to a reversal in the first half of 2018, the Acquisition triggered a substantial impairment charge in the third quarter of 2018 which related to the acquired perimeter. As from 1 January 2018, the Bank has introduced a new impairment model which is based on expected credit losses (ECL) as per the requirements of IFRS 9. Under IFRS9 an asset acquired in a business combination would attract loss allowance at the first reporting date after it is recognised, even if that date is the date on which the business combination has taken place.

NOTES TO THE FINANCIAL STATEMENTS

14. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK (CONTINUED)

This means that even though the fair value of the acquired portfolio has already incorporated expected credit losses at initial recognition, ECL still needed to be calculated on the book value resulting in an impairment charge in the third quarter of 2018 of approximately €54 million. Furthermore, during in the fourth quarter of 2018 the Bank proceeded with certain amendments to the parameters used in the provisioning models as part of the strategic plan. The said amendments related to the liquidation period for collateralised defaulters from 4,6 to 5,2 years resulting to a charge of approximately €12,9 million.

15. TAXATION

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Corporation tax	**(899)**	1	**(255)**	-
Taxes withheld at source	**(49)**	(47)	**(26)**	(4)
Deferred tax	**1.524**	3.539	**1.590**	3.497
	576	3.493	**1.309**	3.493

According to the Income Tax Law 118(I)/2002 as amended, the Bank's taxable profit and that of its subsidiaries in Cyprus, is subject to corporation tax at the rate of 12,5%. Tax losses of group companies in Cyprus, other than companies affected by article 13(8)(d)(i) of the Income Tax Law, can be offset against taxable profits of other group companies in Cyprus and any tax losses not utilised can be carried forward and offset against the same entity's taxable profits of the next five years. Article 13(8)(d)(i) of the Income Tax Law provides that in the case where the disposal of shares held by one company in another company member of the same group is taxed as a trading transaction then the two companies are not considered group companies for loss relief purposes.

Profits earned by subsidiary companies abroad or/and permanent establishments outside Cyprus are subject to taxation at the rates applicable in the country in which the operations are carried out.

Tax exemptions, allowances, deductions and offsets pursuant to Articles 8, 9, 10 and 13 of the Income Tax Law 118(I)/2002 are taken into consideration for the calculation of the tax liability.

According to the provisions of the Special Contribution for the Defence of the Republic Law, Companies that do not distribute 70% of their profits after tax, as these profits are defined by this Law, during the two years following the end of the year 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 dividends to the extent that the shareholders (individuals and companies), at the end of the period of two years from the end of the fiscal year to which the profits refer, are Cyprus residents and in the case of individuals, Cyprus domiciled as well. The amount of the deemed dividend distribution is reduced by any actual dividend already distributed in respect of the year to which the profits refer. The special contribution for defence is paid by the Bank on behalf of the shareholders.

Other developments on taxation issues

- Loan Restructuring Exemption – An exemption from Capital gains tax (CGT)/Income Tax/Corporate Tax/Land Registry Fees Stamp Duties is available on all transfers of immovable property (IP) or shares of companies owning IP as a result of loan restructuring arrangements concluded between Credit Institutions and borrowers. Following an amendment to the Laws this exception has been extended and will be available until 31 December 2019. With an amendment to the Tax Laws, published in the Official Gazette on 17 July 2018, the definition of restructuring has been broadened as to include transfers disposals of property to third persons, non-related with the borrower, following the consent of the Credit Institution. These restructuring arrangements however, will be restricted to facilities which were rendered non-performing on or prior to 31 December 2015. The restriction however was included in the general definition of restructurings and subsequently as from 17 July 2018 and until a new amendment to the provisions of the relevant Laws is effected, the tax exemptions will be applicable only to restructuring arrangements the facilities of which were rendered non-performing on or prior to 31 December 2015. With an additional amendment to the Laws the definition of Creditor has been broadened so as to include companies which acquire credit facilities pursuant to the Sale of Loans Law. Through this amendment the tax exemptions for loan restructurings will also be available for loan restructurings effected by these companies. Another amendment to the Law provisions with effect from 15 March 2019 broadens the term borrower so as to include 3rd degree related persons to the borrower. Through this amendment debt to asset restructurings may be now concluded with immovable property which is not mortgaged however is owned by the related to the borrower persons.
- Bank Special Levy – The provisions of the Law have been amended in order to allow each Bank to deduct from the annual payable amount of Special Levy its contribution to the Single Resolution Fund and or the Resolution Fund as the case may be. As from 1 January 2018 and for every subsequent year, 35/60 of the special levy paid in accordance with the Law, will be transferred to the Recapitalisation Fund within 45 days of their deposit in the Government General Account and the remaining 25/60 will remain in that Account. All transfers to the Recapitalisation Fund will cease upon accumulation of a total amount of €175 million in that Fund.

NOTES TO THE FINANCIAL STATEMENTS
15. TAXATION (CONTINUED)

Reconciliation of taxation based on taxable income and taxation based on accounting profits

The Group	**2018**	2017
	€'000	**€'000**
Group profit/(loss) before taxation	**319.477**	(48.538)
Taxation based on applicable tax rates	**39.935**	(6.067)
Expenses non-tax deductible	**11.430**	8.892
Non-taxable income	**(46.427)**	(4.283)
Tax effect of losses from overseas operations	**(36)**	(15)
Recognition of tax effect of previously unrecognised tax losses	**(4.060)**	-
Change in estimates relating to prior years	**56**	-
Special defence contribution	**50**	-
Other taxation	-	122
Effect of current year tax losses	-	1.397
Deferred tax	**(1.524)**	(3.539)
Tax credit for the year	**(576)**	(3.493)

The Bank	**2018**	2017
	€'000	**€'000**
Bank profit/(loss) before taxation	**316.600**	(50.738)
Taxation based on applicable tax rates	**39.575**	(6.342)
Expenses non-tax deductible	**10.759**	8.129
Non-taxable income	**(45.931)**	(3.468)
Tax effect of losses from overseas operations	**(36)**	(15)
Recognition of tax effect of previously unrecognised tax losses	**(4.112)**	-
Tax withheld on dividends	**26**	-
Other taxation	-	4
Effect of current year tax losses	-	1.696
Deferred tax	**(1.590)**	(3.497
Tax credit for the year	**(1.309)**	(3.493)

Taxation recognised in other comprehensive income:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Deferred taxation on property revaluation	**73**	(236)	**69**	(226)

16. BASIC AND DILUTED EARNINGS/(LOSS) PER SHARE

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Basic and diluted earnings/(loss) per share				
Profit/(loss) attributable to owners of the parent company (€ thousand)	**319.263**	(45.658)	**317.909**	(47.245)
Average number of shares in issue during the year (thousand)	**198.475**	198.475	**198.475**	198.475
Basic and diluted earnings/(loss) per share (€ cent)	**160,86**	(23,00)	**160,18**	(23,80)

As at 31 December 2018 and 2017 there were no options or instruments convertible into new shares therefore basic and diluted earnings/(loss) per share are the same.

NOTES TO THE FINANCIAL STATEMENTS

17. CASH AND BALANCES WITH CENTRAL BANKS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Cash	**151.693**	55.179	**151.691**	55.178
Balances with Central Banks	**4.239.751**	2.238.575	**4.239.751**	2.238.575
	4.391.444	2.293.754	**4.391.442**	2.293.753

The cash and cash equivalent are held with Central Banks and financial institution counterparties that are mainly rated in A- to AAA (99% of total), based on the main three rating agencies (Moody's, Fitch and S&P). The largest deposit remains with the ECB, with €4.097 million and is rated AAA.

Total cash and balances with Central Banks are presented below:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Cash and balances with Central Banks	**4.248.514**	2.225.131	**4.248.512**	2.225.130
Not available for use balances with Central Banks	**143.048**	68.623	**143.048**	68.623
	4.391.562	2.293.754	**4.391.560**	2.293.753
Accumulated Expected Credit Losses	**(118)**	N/A	**(118)**	N/A
Total Cash and Balances with Central Banks	**4.391.444**	2.293.754	**4.391.442**	2.293.753

Movement of Accumulated Expected Credit Losses:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Opening balance as adjusted on 1 Janauary 2018 according to the provisions of IFRS 9	**7**	N/A	**7**	N/A
Movementof the year	**111**	N/A	**111**	N/A
Closing balance	**118**	N/A	**118**	N/A

Cash and Balances with Central Banks are classified as Stage 1.

18. PLACEMENTS WITH OTHER BANKS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Other placements with Banks	**213.764**	226.465	**210.702**	224.273
Interbank accounts	**94.124**	121.711	**83.581**	111.999
	307.888	348.176	**294.283**	336.272

NOTES TO THE FINANCIAL STATEMENTS
18. PLACEMENTS WITH OTHER BANKS (CONTINUED)

The analysis of placements with other Banks based on their remaining contractual maturity as at 31 December is as follows:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
On demand	**155.739**	204.427	**143.123**	194.715
Within three months	**32.659**	47.860	**32.409**	47.600
Between three months and one year	**2.606**	2.182	**1.867**	250
Between one year and five years	**116.884**	93.707	**116.884**	93.707
	307.888	348.176	**294.283**	336.272

On 31 December 2018, an amount of €120.226 thousand (31 December 2017: €97.596 thousand) is pledged as collateral on placements with other banks, being common practice among financial institutions.

Amounts held with financial institutions are mainly with A+ to A- institutions.

Total Placements with other banks are presented below:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Placement with other banks with original maturity less than 3 months	**183.712**	249.940	172.838	239.972
Other placements with other banks	**124.819**	98.236	122.058	96.300
	308.531	348.176	294.896	336.272
Accumulated Expected Credit Losses	**(643)**	N/A	(613)	N/A
Total Placements with other Banks	**307.888**	348.176	294.**283**	336.272

Movement of Accumulated Expected Credit Losses:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Opening balance as adjusted on 1 January 2018 according to the provisions of IFRS 9	**75**	N/A	**75**	N/A
Movement of the year	**568**	N/A	**538**	N/A
Closing balance	**643**	N/A	**613**	N/A

Placements with other banks are classified as Stage 1.

19. LOANS AND ADVANCES TO CUSTOMERS

	The Group and the Bank	
	2018	2017
	€'000	€'000
Trade	**759.448**	703.918
Construction and Real Estate	**975.644**	859.397
Manufacturing	**354.648**	253.077
Tourism	**400.003**	258.227
Other sectors	**823.760**	702.628
Retail	**4.322.023**	1.277.666
	7.635.526	4.054.913
Accumulated impairment losses	**(1.352.088)**	(1.288.175)
	6.283.438	2.766.738

NOTES TO THE FINANCIAL STATEMENTS
19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Based on the above categories, loans and advances to customers of the Group and the Bank are presented below:

	Stage 1	Stage 2	Stage 3	Purchased credit impaired	**Total**
	€'000	€'000	€'000	€'000	**€'000**
1 January 2018	1.443.067	445.647	2.166.199	-	**4.054.913**
Transfer from Stage 1 to Stage 2	(65.862)	65.862	-	-	-
Transfer from Stage 1 to Stage 3	(9.689)	-	9.689	-	-
Transfer from Stage 2 to Stage 3	-	(39.887)	39.887	-	-
Transfer from Stage 3 to Stage 2	-	36.808	(36.808)	-	-
Transfer from Stage 2 to Stage 1	79.576	(79.576)	-	-	-
Transfer from Stage 3 to Stage 1	266	-	(266)	-	-
Net movement during the period	(399.274)	17.542	(82.569)	(6.494)	**(470.795)**
Acquired portfolio	3.606.591	-	-	433.250	**4.039.841**
Exchange difference	3.615	485	7.467	-	**11.567**
31 December 2018	4.658.290	446.881	2.103.599	426.756	**7.635.526**

Analysis of loans and advances to customers based on their remaining contractual maturity as of 31 December, is as follows:

	The Group and the Bank	
	2018	2017
	€'000	€'000
On demand	**1.946.000**	1.905.830
Within three months	**92.691**	121.236
Between three months and one year	**220.204**	181.212
Between one year and five years	**946.678**	740.310
Over five years	**4.429.953**	1.106.325
	7.635.526	4.054.913
Accumulated impairment losses	**(1.352.088)**	(1.288.175)
	6.283.438	2.766.738

NOTES TO THE FINANCIAL STATEMENTS

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The table below discloses the accumulated impairment losses on the value of loans and advances as per IFRS 9. Comparative amounts of 2018 represents the impairment losses under IAS 39 measurement basis:

	2018					2017		
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	**Total**	Individually measured allowances	Collectively measure allowances	Total
€'000	€'000	€'000	€'000	€'000	**€'000**	€'000	€'000	€'000
1 January	5.823	23.800	1.296.483	-	**1.326.106**	1.346.526	27.558	1.374.084
Transfer from Stage 1 to Stage 2	(385)	385	-	-	-	N/A	N/A	N/A
Transfer from Stage 1 to Stage 3	(64)	-	64	-	-	N/A	N/A	N/A
Transfer from Stage 2 to Stage 3	-	(3.018)	3.018	-	-	N/A	N/A	N/A
Transfer from Stage 3 to Stage 2	-	12.300	(12.300)	-	-	N/A	N/A	N/A
Transfer from Stage 2 to Stage 1	3.520	(3.520)	-	-	-	N/A	N/A	N/A
Transfer from Stage 3 to Stage 1	127	-	(127)	-	-	N/A	N/A	N/A
Net write-offs of loan impairment losses	(677)	(1.330)	(146.899)	(68)	**(148.974)**	(140.927)	(6.916)	(147.843)
Contractual interest on impaired loans	-	-	144.413	-	**144.413**	154.304	-	154.304
Unwinding of discount	-	-	(40.642)	-	**(40.642)**	(43.366)	-	(43.366)
Charge/ (reversal) for the year	33.883	(2.002)	34.442	(7.781)	**58.542**	90.242	(4.112)	86.130
Transfer from other assets	-	-	-	-	-	(124.745)	(2)	(124.747)
Transfer from Non Current assets held for sale	-	2	7.399	-	**7.401**	-	-	-
Exchange difference	33	23	5.186	-	**5.242**	(10.069)	(318)	(10.387)
31 December	42.260	26.640	1.291.037	(7.849)	**1.352.088**	1.271.965	16.210	1.288.175
of which relating to the acquired portfolio	*36.203*	*3.936*	*22.566*	*(7.849)*	***54.856***	*N/A*	*N/A*	*N/A*

Unwinding of discount amounting to €40,6 million (31 December 2017: €43,4 million) relates to interest income on impaired loans and advances to customers and is recognised in the income statement.

Net write-offs of loan impairment losses for the year ended 31 December 2018 include an amount of €51,5 million relating to non contractual write-offs.

Risk categories

The loans and advances, are presented in risk categories based on the credit risk assessment system of the Group. The risk categories are as follows:

Grade 1 (Low Risk):
An immediate ability to repay the credit facility is assumed.

Grade 2 (Medium Risk):
The probability of indirect recovery of the credit facility is assumed.

Grade 3 (High Risk):
The debtor presents a higher risk compared to Grade 1 and 2 on the existence of direct and indirect recovery of the credit facility.

Past due loans and advances

Represent loans and advances for which the contractual interest or principal repayments are past due.

Collateral

On the basis of the Group's policy, the amount of credit facilities granted should be based on the repayment capacity of the relevant counterparties. Furthermore, policies are applied for the hedging and mitigation of credit risk through the holding of collateral. These policies define the types of collaterals held and the methods for estimating their fair value.

The main collaterals held by the Group include mortgage interests over property, pledging of cash, government and bank guarantees, charges over business assets as well as personal and corporate guarantees.

Property collateral relates to immovable commercial, residential and land real estate collateral. The Bank maintains a Property Valuations Policy which provides a standardised approach for acceptable property valuations from independent professional valuers, the selection criteria and the processes to evaluate the performance of property valuers. The Policy outlines the frequency for revaluations, establish the criteria for monitoring collateral values and introduces the use of indexation. The open market value of property is indexed to present, using appropriate property indices (CBC and RICS). Indices are monitored, validated and back tested in order to accurately reflect the current market values of the property collaterals of the Bank.

Aiming at fulfillment of undertakings concerning harmonisation with EU VAT legislation given by the Republic on accession to the EU, the House of the Representatives approved amendments to the Cyprus VAT Legislation which were published in the Official Gazette on the 13 November 2017. These amendments affect the value of the portfolio of immovable property either owned by the Group or held as collateral, depending on the location of each property, the legal status and nature of activities carried out by its owner and prevailing market conditions.

Forborne Exposures

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.

NOTES TO THE FINANCIAL STATEMENTS
19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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 Restructuring Policy includes the terms and conditions on which the Bank determines whether a renegotiated repayment schedule shall be granted.

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

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

Non-performing exposures (NPEs) according to the EBA's technical standards

The EBA published in 2014 its technical standards with respect to non-performing and forborne exposures which were adopted by the European Commission (EC) through the Commission Implementation Regulation (EU) 2015/1278. Exposures include all debt instruments (loans and advances and debt securities) and off-balance sheet exposures, except those held for trading exposures.

As per the above regulation, 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 realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due,
(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 that were NPE at forbearance or became NPE due to forbearance or 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 i.e. that were NPE at forbearance or became NPE due to forbearance or NPE after forbearance and present more than 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 Regulation (EU) No 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, else only exposures that are non-performing will be classified as such and (b) for debtors classified as non-retail debtors as per the Regulation (EU) No 575/2013, when any on-balance sheet exposure to that debtor is non-performing, all on and off-balance sheet exposures to that debtor shall be considered as NPE.

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 Regulation (EU) No 575/2013:

- For term loans: if the past due amount of each exposure is over €500 the exposure 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 Regulation (EU) No 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.

NOTES TO THE FINANCIAL STATEMENTS

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

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 measures do 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.

As per EBA 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 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.

The forbearance classification shall be discontinued when all of the following conditions are met:

(a) the contract is considered as performing, including if it has been reclassified from the non- performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non performing,

(a) a minimum 2 year probation period has passed from the date the forborne exposure was considered as performing,

(b) regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period,

(c) none of the exposures to the debtor is more than 30 days past due at the end of the probation period.

NOTES TO THE FINANCIAL STATEMENTS

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Based on the above categories, loans and advances to customers of the Group and the Bank are presented below. Comparative amounts of 2018 represent the impairment losses under IAS 39 measurement basis:

	2018					2017
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	**Total**	Total as per IAS 39
	€'000	€'000	€'000	€'000	**€'000**	€'000
Total carrying amount	4.616.030	420.241	812.562	434.605	**6.283.438**	2.766.738
Grade 1 (low risk)	4.499.508	223.435	24.768	52.541	**4.800.252**	1.577.047
Grade 2 (medium risk)	152.447	214.192	469.117	3.414	**839.170**	938.629
Grade 3 (high risk)	6.335	9.254	1.609.714	370.801	**1.996.104**	1.539.237
Gross amount	4.658.290	446.881	2.103.599	426.756	**7.635.526**	4.054.913
Accumulated Impairment losses	(42.260)	(26.640)	(1.291.037)	7.849	**(1.352.088)**	(1.288.175)
	4.616.030	420.241	812.562	434.605	**6.283.438**	2.766.738
Past due exposures						
0+ up to 30 days	240.794	40.207	12.619	40.901	**334.521**	70.761
30+ up to 60 days	24.036	59.116	30.085	29.783	**143.020**	32.181
60+ up to 90 days	9.223	26.585	12.343	22.486	**70.637**	34.558
90 days+	152	1.241	1.793.794	193.315	**1.988.502**	1.746.532
Gross amount	274.205	127.149	1.848.841	286.485	**2.536.680**	1.884.032
Accumulated Impairment losses	(12.963)	(9.324)	(1.215.302)	(2.610)	**(1.240.199)**	(1.140.165)
Carrying amount	261.242	117.825	633.539	283.875	**1.296.481**	743.867
Forborne exposures						
Carrying amount	322.109	178.154	411.664	301.465	**1.213.392**	680.452

Movement of carrying amount of loans and advances classified as Stage 3 and POCI:

	Stage 3	Purchased credit impaired	**Total**
	€'000	€'000	**€'000**
1 January 2018	849.905	-	**849.905**
Adjustment on initial application of IFRS 9	19.874	-	19.874
Restated balance at 1 January 2018	869.779	-	**869.779**
Transfer from Stage 1 to Stage 3	9.625	-	**9.625**
Transfer from Stage 2 to Stage 3	36.870	-	**36.870**
Transfer from Stage 3 to Stage 2	(24.508)	-	**(24.508)**
Transfer from Stage 3 to Stage 1	(139)	-	**(139)**
Acquired portfolio	-	433.250	**433.250**
Net movement during the period	(81.345)	1.355	**(79.990**
Exchange difference	2.280	-	**2.280**
31 December 2018	812.562	434.605	**1.247.167**

NOTES TO THE FINANCIAL STATEMENTS

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

The value of collaterals of loans and advances with forbearance measures is analysed below:

	2018	2017
	€million	€million
Residential	**1.150**	461
Commercial	**671**	537
Land	**750**	355
Property collaterals	**2.571**	1.353
Other	**102**	31
	2.673	1.384

The Group's and the Bank's loans and advances with forbearance measures are analysed below:

	Gross Loans		Carrying amount	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Trade	**150.851**	164.794	**103.555**	112.350
Constraction and Real Estate	**477.064**	475.757	**265.445**	262.289
Manufacturing	**66.271**	51.602	**45.673**	28.201
Tourism	**44.450**	37.641	**30.757**	29.549
Other sectors	**150.447**	163.755	**111.321**	113.737
Retail	**723.375**	187.024	**656.641**	134.326
	1.612.458	1.080.573	**1.213.392**	680.452

The value of collaterals of loans and advances with forbearance measures are analysed below:

	2018	2017
	€million	€million
Residential	**1.165**	302
Commercial	**582**	516
Land	**641**	246
Property collaterals	**2.388**	1.064
Other	**84**	37
	2.472	1.101

Non-Performing Exposures (NPEs)

The non performing exposures portfolio of the Group as at 31 December 2018 amounted to €2.474 million (2017: €2.162 million).

The ratio of NPEs to gross loans was 32,4% (2017: 53,3%). The gross book value of NPEs include contractual interest not recognised in the income statement.

The NPEs provision coverage was 54,6% as at 31 December 2018 (31 December 2017 adjusted with IFRS 9 initial application impact: 61,3%, 2017: 59,6%).

NOTES TO THE FINANCIAL STATEMENTS

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Estia Scheme

Purpose of the Estia Scheme

The Government of the Republic of Cyprus in July 2018 announced a scheme named "Estia" (Scheme) aiming to achieve a socially acceptable and financially viable restructuring solutions for vulnerable borrowers and protect their primary residences. This is based on specific eligibility criteria, principles, terms and conditions. As a result, eligible borrowers have the opportunity to cooperate with the banks and the Cypriot Authorities to reach an amicable restructuring solution with a view to secure their primary residence.

The "Estia" is a one time Scheme that will be applicable for a limited period of time and offers the opportunity to substantially reduce the debt burden of the affected households and to enhance the long term repayment ability of loans which are secured by primary residence.

According to the provisions of the Scheme, eligible borrowers will receive a subsidy from the Government of the Republic of Cyprus, for restructured loans that are secured by eligible primary residence, provided that their contractual obligations are fully met. More specifically, at the end of each year the Government will pay directly to banks a subsidy which is the equivalent of one third (1/3) of the total monthly loan installments of the restructured loans that are secured by primary residence. The subsidy will be granted under the precondition that two thirds (2/3) of the total monthly loan installments are successfully paid by the borrowers to the banks.

The Scheme is applicable for non-performing credit facilities, regardless of the denominated currency, that fulfill specific requirements, terms and conditions and socioeconomic criteria as at 30 September 2017, up to the actual point in time of submission of the ESTIA applications.

Progress / Status

The basic principles, terms and conditions of the Estia Scheme are stipulated in the Memorandum of Understanding (MoU) which is expected to be finalised and countersigned by the Government of the Republic of Cyprus (i.e. Ministry of Finance), the Government Agency (i.e. Ministry of Labour, Welfare and Social Insurance) and the Banks. On 3 December 2018, the European Commission announced the approval of the ESTIA scheme under State Aid Rules. The Scheme following its finalisation, is expected to be launched in early 2019.

A number of actions are in progress within the Bank, according to the action plan set for the implementation of the Scheme and complies with the provisions of the MoU.

NOTES TO THE FINANCIAL STATEMENTS
19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)
ANALYSIS OF LOAN PORTFOLIO ACCORDING TO THE COUNTERPARTY SECTOR AS AT 31 DECEMBER 2018

	Total loan portfolio				Cumulative Impairment losses			
		of which non-performing exposures	of which exposures with forbearance measures			of which non-performing exposures	of which exposures with forbearance measures	
				of which on non- performing exposures				of which on non-performing exposures
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances*	**7.630.107**	**2.474.388**	**1.612.458**	**1.064.964**	**1.352.088**	**1.297.492**	**399.066**	**387.835**
General Governments	4.827	348	645	276	48	2	41	-
Other financial corporations	74.273	28.247	22.470	19.496	15.925	15.233	9.023	8.863
Non-financial corporations	3.064.958	1.372.165	815.271	650.780	820.661	794.631	311.520	304.295
of which: Small and Medium-sized enterprises	2.648.708	1.321.826	771.239	623.307	799.062	780.592	308.845	302.739
of which: Commercial real estate**	2.383.647	1.131.409	719.222	570.259	637.486	619.616	261.634	255.188
By sector								
1. Construction	642.020	477.089			291.138			
2. Wholesale and retail trade	698.891	333.906			226.860			
3. Real estate activities	307.253	161.091			73.151			
4. Accommodation and food service activities	447.718	124.081			71.213			
5. Manufacturing	340.529	129.256			80.153			
6. Other sectors	628.547	146.742			78.146			
Households	4.486.049	1.073.628	774.072	394.412	515.454	487.626	78.482	74.677
of which: Residential mortgage loans	3.112.540	634.896	566.908	283.671	212.644	201.875	40.312	38.385
of which: Credit for consumption	605.995	191.604	73.364	34.938	142.648	132.617	5.522	4.986

*Excluding loans and advances to central banks and credit institutions.
**As from first quarter 2018 it includes loans and advances that are collateralised by immovable property other than residential porperty.

NOTES TO THE FINANCIAL STATEMENTS
19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)
ANALYSIS OF LOAN PORTFOLIO ACCORDING TO THE COUNTERPARTY SECTOR AS AT 31 DECEMBER 2017

	Total loan portfolio				Cumulative Impairment losses			
		of which non-performing exposures	of which exposures with forbearance measures			of which non-performing exposures	of which exposures with forbearance measures	
				of which on non-performing exposures				of which on non-performing exposures
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances*	**4.049.627**	**2.161.772**	**1.080.573**	**849.381**	**1.288.175**	**1.271.965**	**400.121**	**395.222**
General Governments	983	131	-	-	1	-	-	-
Other financial corporations	104.909	29.069	25.384	20.492	15.817	15.289	9.595	9.553
Non-financial corporations	2.597.920	1.464.438	848.823	694.717	847.116	836.971	332.299	329.633
of which: Small and Medium-sized enterprises	2.413.986	1.416.401	819.829	678.091	818.835	810.365	327.000	324.407
of which: Commercial real estate	484.979	190.107	163.388	119.145	86.649	83.823	46.861	46.108
By sector								
1. Construction	628.536	499.366			290.036			
2. Wholesale and retail trade	672.430	408.296			240.372			
3. Real estate activities	217.151	122.104			70.489			
4. Accommodation and food service activities	293.416	113.676			56.175			
5. Manufacturing	248.798	102.340			65.738			
6. Other sectors	537.589	218.656			124.306			
Households	1.345.815	668.134	206.366	134.172	425.241	419.705	58.227	56.036
of which: Residential mortgage loans	590.344	183.947	90.883	47.399	86.499	84.260	16.358	15.248
of which: Credit for consumption	251.399	148.708	17.027	11.225	120.462	119.130	3.973	3.721

*Excluding loans and advances to central banks and credit institutions.

NOTES TO THE FINANCIAL STATEMENTS
19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)
ANALYSIS OF LOAN PORTFOLIO* ON THE BASIS OF LOAN ORIGINATION DATE AS AT 31 DECEMBER 2018

Loan origination date**	Total loan portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	615.120	23.296	3.793	309.335	2.391	2.093	1.394	-	2	304.391	20.905	1.698
1 - 2 years	670.671	28.176	8.914	316.261	13.100	6.413	25.957	5	169	328.453	15.071	2.332
2 - 3 years	576.538	95.339	7.279	174.201	17.419	2.743	2.289	-	5	400.048	77.920	4.531
3 - 5 years	596.932	102.867	21.269	200.298	39.715	14.720	2.546	5	13	394.088	63.147	6.536
5 - 7 years	837.259	211.604	91.600	198.461	109.144	61.022	2.713	922	230	636.085	101.538	30.348
7 - 10 years	1.920.307	667.495	355.106	612.189	385.123	225.478	9.450	3.713	2.685	1.298.668	278.659	126.943
Over 10 years	2.408.453	1.345.263	864.079	1.254.213	805.273	508.192	29.924	23.602	12.821	1.124.316	516.388	343.066
Total	7.625.280	2.474.040	1.352.040	3.064.958	1.372.165	820.661	74.273	28.247	15.925	4.486.049	1.073.628	515.454

*Excluding loans and advances to general governments.
**Loan origination date is defined as the contractual loan origination date for each account. For restructured loans the origination date was derived based on the origination date of the original loan that was restructured. For the acquired portfolio as a result of the Acquisition the origination date is defined as the origination date of the loan as of the Acquisition date.

19. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

ANALYSIS OF LOAN PORTFOLIO* ON THE BASIS OF LOAN ORIGINATION DATE AS AT 31 DECEMBER 2017

Loan origination date**	Total loan portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	357.566	4.539	3.744	206.884	3.888	2.920	52.658	37	336	98.024	614	488
1 - 2 years	237.407	11.270	9.359	157.278	10.031	8.311	2.918	357	359	77.211	882	689
2 - 3 years	249.287	33.908	19.810	177.994	31.488	19.185	1.846	-	13	69.447	2.420	612
3 - 5 years	132.292	66.797	40.819	81.324	53.259	32.235	1.136	177	37	49.832	13.361	8.547
5 - 7 years	490.632	280.786	156.572	318.050	197.032	110.886	6.230	3.880	2.209	166.352	79.874	43.477
7 - 10 years	1.156.375	786.688	451.711	730.224	536.940	293.546	14.688	6.509	2.184	411.463	243.239	155.981
Over 10 years	1.425.085	977.653	606.159	926.166	631.800	380.033	25.433	18.109	10.679	473.486	327.744	215.447
Total	4.048.644	2.161.641	1.288.174	2.597.920	1.464.438	847.116	104.909	29.069	15.817	1.345.815	668.134	425.241

*Excluding loans and advances to general governments.
**Loan origination date is defined as the contractual loan origination date for each account. For restructured loans the origination date was derived based on the origination date of the original loan that was restructured.

NOTES TO THE FINANCIAL STATEMENTS

20. DEBT SECURITIES

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Securities classified at fair value through other comprehensive income				
Listed	**593.035**	N/A	**592.236**	N/A
12 month expected credit losses	**(85)**	N/A	**(85)**	N/A
	592.950	N/A	**592.151**	N/A
Securities classified at amortised cost				N/A
Listed	**3.933.922**	N/A	**3.933.922**	N/A
12 month expected credit losses	**(444)**	N/A	**(444)**	N/A
	3.933.478	N/A	**3.933.478**	N/A
Securities held to maturity				
Listed	**N/A**	146.399	**N/A**	146.399
Securities classified as loans and receivables				
Listed	**N/A**	193.260	**N/A**	193.260
Securities available for sale				
Listed	**N/A**	679.243	**N/A**	678.431
	4.526.428	1.018.902	**4.525.629**	1.018.090

The analysis of Debt securities is based on their remaining contractual maturity as at 31 December:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Within three months	**89.536**	70.829	**89.536**	70.829
Between three months and one year	**1.275.586**	111.183	**1.275.586**	111.183
Between one year and five years	**2.612.692**	293.939	**2.612.354**	293.594
Over five years	**548.614**	542.951	**548.153**	542.484
	4.526.428	1.018.902	**4.525.629**	1.018.090

Analysis of Debt securities by sector:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Concentration by sector:				
Governments	**4.148.844**	729.854	**4.148.045**	729.042
Banks	**131.411**	40.015	**131.411**	40.015
Other sectors	**246.173**	249.033	**246.173**	249.033
	4.526.428	1.018.902	**4.525.629**	1.018.090

As at 31 December 2018 the Group's exposure in Cyprus Government Bonds amounted to €4.135.850 thousand (2017: €678.573 thousand), rated at Baa3 Moody's equivalent credit rating, as this is defined in Article 269 of the Regulation (EU) No575/2013. The increase in the balance of debt securities mainly results from the Acquisition.

The category "Other sectors" mainly consists of debt securities of supranational organisations.

Securities classified at amortised cost include a debt security of a nominal amount of €34.800 thousand which was held as a collateral against loans granted by the European Investment Bank (EIB) to CCB which were legally transfered to the Bank in April 2019.

NOTES TO THE FINANCIAL STATEMENTS

20. DEBT SECURITIES (CONTINUED)

It is noted that CCB has also provided the Bank with a number of indemnities under the BTA. These include an indemnity for any challenge to the validity, implementation, compliance with appropriate law, effectiveness or enforcement of the transaction (other than claims brought by the Bank or against the Bank by its Shareholders), an indemnity for any challenge to the transferability to the Bank of the Assets and Assumed Liabilities and an indemnity for any non-enforceability or invalidity of any Asset resulting from facts or circumstances on or before Completion of Acquisition or missing loan documentation.

The Group closely monitors developments in the international markets so that any measures needed are promptly taken to reduce credit risk.

Movement of Accumulated Expected Credit Losses:

	The Group and the Bank	
	2018	2017
	€'000	€'000
Opening balance as adjusted on 1 Janauary 2018 according to the provisions of IFRS 9	**1.374**	N/A
Movement of the year	**(845)**	N/A
Closing Balance	**529**	N/A

Debt securities are classified as Stage 1.

21. HEDGE ACCOUNTING

The Group enters into fair value hedges, using interest rate swaps, in order to protect itself against movements in the fair value of fixed-rate financial instruments due to movements in market interest rates. The Bank designates these interest rate swaps as hedging instruments in respect of interest rate risk in fair value hedges. The hedged instruments are certain fixed rate Cyprus Government Bonds (CGBs) that were onboarded as a result of the Acquisition.

21.1. Risk Management Strategy

The Bank monitors the Interest Rate Risk in the Banking Book (IRRBB) which is governed by the approved Interest Rate Risk Policy that is part of the Bank's Enterprise Risk Management Framework. The IRRBB is managed by the Bank's Treasury that operates within the approved Limit Framework stemming from the Board of Directors Risk Appetite Framework (RAF).

More specifically, the Bank's Risk Appetite Framework states that "the Bank will take Interest Rate Risk in the Banking Book related to timing differences in its assets, liabilities and off-balance sheet position up to 10% of Tier 1 Capital (based on EBA's six prescribed interest rate shock scenarios in the yield curve)".

21.2. Hedging Relationship

To operate within the above mentioned risk appetite limit regarding Interest Rate Economic Value of Equity (IR EVE) sensitivity, and maintain a buffer, the Bank has proceeded with Fair Value Hedge Accounting by entering in interest rate derivatives to swap to floating rate certain fixed rate Cyprus Government Bonds (CGBs) that were onboarded as a result of the Acquisition. Each CGB's interest rate risk is hedged against a single IR Swap transaction for the full nominal amount of the bond and therefore the resulting hedge ratio in each hedging relationship is one-to-one.

Accordingly, the Hedging Instruments for the Bank's outstanding hedges are interest rate swaps and the Hedged Instruments are the CGBs for which the Bank hedges only the risk component of Interest rate risk arising from fluctuations in the underlying risk-free curve, immunizing their duration and essentially becoming exposed to the duration of the floating rate of the derivatives.

21.3. Hedging Effectiveness

The Hedged Items in the Bank's outstanding hedges is the risk-free interest component of the Hedged Instruments (the CGBs). The CGBs create an exposure to fixed interest receivable cash flows, while the interest rate swaps (Hedging Instrument) pay fixed interest cash flows and receive variable interest cash flows based on 3-month EURIBOR. As such, and given that the critical terms of the hedging relationship are aligned, it is expected that the value of the Hedging Instrument (IR swap) and the value of the Hedged Item move in the opposite direction because of movements in the EUR Swap curve. Given that the critical terms of the hedge (nominal amount, maturity, cash flow dates) are aligned, the economic relationship between the Hedged Item and the Hedging Instrument is self-evident and hedge effectiveness is expected to be high by virtue of the hedge's design. For completeness, the Bank has also conducted regression analysis, and has concluded that the hedge under consideration is indeed expected to be highly effective until maturity, with regards to its risk management objective.

The amounts relating to items designated as hedging instruments, hedged items and hedge ineffectiveness were as follows:

2018	Notional amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for 2018	Ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
		Asset	Liabilities				
	€'000	€'000	€'000		€'000	€'000	
Interest rate risk							
Interest rate swaps-hedge of Cyprus Government Bonds	1.190.000	-	6.558	Other liabilities (Derivatives)	(5.531)	(519)	Net gains on disposal and revaluation of foreign currencies and financial instruments

2018	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge effectiveness
	Asset	Liabilities			
	€'000	€'000	€'000		€'000
The amounts relating to items designated as hedged items were as follows:					
Cyprus Government Bonds -interest rate risk of coupons	1.238.293	-	5.013	Debt securities	5.013

NOTES TO THE FINANCIAL STATEMENTS

22. RECLASSIFICATION OF DEBT SECURITIES

As a result of the reclassification on the 1 of January 2009 of certain available for sale debt securities to the held to maturity category, for the year ended 31 December 2017, an amount of €74 thousand being amortisation of revaluation of reclassified debt securities, was transferred from the investment revaluation reserve to the income statement. This amount was the final since all bonds have matured.

23. EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Equity and other securities at fair value through profit or loss				
Unlisted securities	**4.527**	N/A	**4.527**	N/A
Collective investment units	**23.141**	N/A	**-**	N/A
	27.668	N/A	**4.527**	N/A
Equity securities classified at fair value through other comprehensive income				N/A
Listed securities	**1.387**	N/A	**1.387**	N/A
Unlisted securities	**5.583**	N/A	**5.583**	N/A
	6.970	N/A	**6.970**	N/A
Equity securities held for trading				
Listed securities	**N/A**	450	**N/A**	450
Equity securities available for sale				
Listed securities	**N/A**	1.313	**N/A**	1.313
Provisions for impairment	**N/A**	(370)	**N/A**	(370)
	N/A	943	**N/A**	943
Unlisted securities	**N/A**	8.808	**N/A**	8.532
Provisions for impairment	**N/A**	(970)	**N/A**	(694)
	N/A	7.838	**N/A**	7.838
Collective investment units	**N/A**	20.806	-	-
Total securities available for sale	**N/A**	29.587	**N/A**	8.781
	34.638	30.037	**11.497**	9.231

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Concentration by sector:				
Equity securities held for trading				
Other sectors	**N/A**	450	**N/A**	450
Equity securities available for sale				
Collective investments units	**N/A**	20.806	**N/A**	-
Other sectors	**N/A**	8.781	**N/A**	8.781
Equity and other securities at fair value through profit or loss				
Unlisted securities	**4.527**	N/A	**4.527**	N/A
Collective investment units	**23.141**	N/A	-	N/A
Equity securities classified at fair value through other comprehensive income				
Other sectors	**6.970**	N/A	**6.970**	N/A

NOTES TO THE FINANCIAL STATEMENTS

23. EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS (CONTINUED)

Unlisted equity securities classified at fair value through other comprehensive income include the Bank's investment in JCC Payment Systems Ltd of €5.363 thousand (31 December 2017: €5.021 thousand). In determining the fair value of the Bank's investment in the unlisted company JCC Payment Systems Ltd the Group takes into account, amongst others, the net asset position of the entity.

Equity and other secuirities at fair value through profit or loss include the Bank's stakeholding of Series C Visa Inc. shares convertible into Class A Common Stock which are valued based on the stock price of the underlying shares on each reporting date. Due to the conversion of the shares taking place on the twelfth anniversary of the closing date of the agreement (21 June 2016) after settling any unresolved and outstanding cover claims, it was considered appropriate to apply a haircut of 50% on the observable value of the shares. As per IAS 39 they were previously classified as secuirties available for sale. As at 31 December 2018, the value of the shares was estimated at €4.527 thousand (31 December 2017: €2.531 thousand).

During 2018, the Group continued investing in collective investments units which are shares/units in well diversified investments funds.

Movement of provision for impairment in the value of investment in shares:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Provisions for impairment				
Balance 1 January	**N/A**	1.394	**N/A**	1.116
Exchange difference	**N/A**	(54)	**N/A**	(52)
Balance 31 December	**N/A**	1.340	**N/A**	1.064

NOTES TO THE FINANCIAL STATEMENTS

24. INVESTMENTS IN SUBSIDIARY COMPANIES

Investments in subsidiary companies represent the cost of acquisition of shares or the cost of incorporation/investment net of any provision for impairment of investment, where applicable, in the following subsidiary companies:

	Line of Business	Country of operation and registration	Ownership %	Number of shares (thousand)	**2018 €'000**	2017 €'000
Hellenic Bank (Investments) Ltd	Investment banking, asset management and brokerage	Cyprus	100		**4.127**	4.309
Hellenic Bank Trust and Finance Corporation Ltd	Financing Services	Cyprus	100		**94**	94
Pancyprian Insurance Ltd	General Insurance	Cyprus	99,96		**32.423**	32.423
Hellenic Alico Life Insurance Company Ltd	Life Insurance	Cyprus	72,50		**1.239**	1.239
Hellenic Insurance	Insurance	Cyprus	100		**86**	86
Agency Ltd	Intermediation	Cyprus	100	340	**-**	145.400
D4A2 Ltd	Investment holdings	Cyprus	100		**4.828**	-
Idith Holdings Ltd	Investment holdings	Cyprus	100	110	**13.707**	-
Ezmero Holdings Ltd	Investment holdings	Cyprus	100	110	**4.035**	-
Alira Holdings Ltd	Investment holdings	Cyprus	100	120	**4.706**	-
Krolo Holdings Ltd	Investment holdings	Cyprus	100	130	**7.009**	-
Litt Holdings Ltd	Investment holdings	Cyprus	100	110	**5.000**	-
Dallastia Holdings Ltd	Investment holdings	Cyprus	100	130	**4.626**	-
Anolia Industrial Ltd	Investment holdings	Cyprus	100	100	**0,100**	-
Abverma Holdings Ltd	Investment holdings	Cyprus	100	150	**3.568**	-
Chrisblo Holdings Ltd	Investment holdings	Cyprus	100	110	**2.147**	-
Balmacro Holdings Ltd	Investment holdings	Cyprus	100	100	**0,100**	-
Bulmo Holdings Ltd	Investment holdings	Cyprus	100	100	**0,100**	-
Drypto Holdings Ltd	Investment holdings (not active)	Cyprus	100	100	**0,100**	-
					87.595	183.551

On 28 November 2016 the Board of Directors of Hellenic Bank (Investments) Ltd decided to discontinue all of its business activities, which primarily related to retail brokerage services.

As at 31 December 2018, the assessment for impairment of the investment in the subsidiary companies resulted in an impairment charge of €182 thousand for the investment in Hellenic Bank (Investments) Ltd. The cost of investment represents the company's net assets as at 31 December 2018.

The Bank, as part of its non-performing exposures management, is entering into a number of debt-to- asset swap transactions. Assets acquired in satisfaction of debt are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs).

For liquidation optimisation at 31 December 2017, D4A2 Ltd was the holding company of 34 wholly owned SPVs established or acquired to hold assets acquired in satisfaction of debt. As at 31 December 2017, 3 out of the 34 SPVs were dormant.

NOTES TO THE FINANCIAL STATEMENTS

24. INVESTMENTS IN SUBSIDIARY COMPANIES (CONTINUED)

Pursuant to a re-organisation plan dated 1 November 2018 (the "Plan"), as ratified by a court order dated 12 November 2018 and filed with the Registrar of Companies for registration on 10 December 2018, the Bank absorbed the operations of its 100% owned subsidiary D4A2 Ltd. At the same time, through the Plan, the Bank absorbed the operations of 22 such SPVs. Through the Plan, all the assets, rights and obligations of D4A2 Ltd and the 22 SPVs absorbed were taken over by the Bank on a going concern basis. The SPVs absorbed were dissolved without going into liquidation.

Amounts due to subsidiary companies represent deposits held with the Bank:

	The Bank	
	2018	2017
	€'000	€'000
Hellenic Bank (Investments) Ltd	**3.511**	3.519
Hellenic Bank Trust and Finance Corporation Ltd	**825**	832
Pancyprian Insurance Ltd	**6.567**	7.002
Hellenic Alico Life Insurance Company Ltd	**4.466**	4.728
Hellenic Insurance Agency Ltd	**209**	210
SPVs	**1.286**	7.482
	16.864	23.773

Hellenic Alico Life Insurance Company Ltd capital structure as at 31 December 2018 and as at 31 December 2017 was as follows:

	%	Number of shares
Public Company Limited	72,50	725.000
MetLife Services Cyprus Limited (previously American Life Insurance Company (Cy) Limited)	27,50	275.000
	100,00	1.000.000

The following table shows the main financial information relating to Hellenic Alico Life Insurance Company Ltd, before any intra-group eliminations:

	31 December 2018	31 December 2017
	€'000	€'000
Gross premiums	**12.096**	11.759
Profit for the year after tax	**3.144**	2.178
Dividend paid to NCI	**-**	578
Total assets	**49.033**	47.259
Total liabilities	**(33.615)**	(34.898)
Net assets	**15.418**	12.361

The proportion of voting rights held by Hellenic Alico Life Insurance Company Ltd non-controlling interest, is the same with the proportion of ownership interests held.

There are no restrictions on the Bank's ability to access or use assets, and settle liabilities of the Group.

NOTES TO THE FINANCIAL STATEMENTS

25. INVESTMENT IN ASSOCIATE COMPANY

Within the framework of the Bank's deleveraging strategy and the efforts of tackling assets quality, the Bank signed an agreement with APS Holding a.s (APS Holding) in January 2017 for the management of real estate assets and servicing of the NPEs portfolio. The agreement entailed the disposal of the operations of the Bank's Arrears Management Division (AMD) to APS Debt Servicing Cyprus Ltd (APS Cyprus), while the ownership of the real estate and loan portfolio remains with the Bank. The new entity is owned 51% by APS Holding and 49% by Hellenic Bank. The completion of the transaction and the transfer of business was effected on 30 June 2017 while APS Cyprus commenced operations on 3 July 2017. By creating the first debt servicing and real estate asset management platform in the Cypriot market, the Bank is able to effectively deal with its non performing exposures (NPEs) in an accelerated and effective way through leveraging on the knowhow and expertise of APS Holding. Furthermore, it allows the Bank to better allocate its resources on managing and growing the performing loan book by using its excess liquidity to the benefit of the market.

APS Cyprus acquired the operations of the Bank's internal AMD, including the necessary resources to independently carry out the servicing of NPLs and REO portfolio. Simultaneously, the Bank has executed a 10-year service level agreement with APS Cyprus for the management of the Bank's NPLs and REO Portfolio. It is noted that the Bank retains the ownership of the said NPLs and REO portfolio. The contract was priced at arms' length basis following a two stage competitive auction process.

APS Cyprus has assumed all operating expenses associated with the management of the Bank's NPLs and REO portfolio including but not limited to the costs of payroll, IT licenses, processes, products, services and other operations related overheads 129 employees from the Bank's AMD moved to APS Cyprus while additional resources, expertise and knowhow were brought in as needed to further enhance the capabilities and capacity of the operation.

NPLs with a value of approximately €1,8 billion and REO portfolio with a market value of approximately €230 million are managed by APS Cyprus in consideration for an administration fee payable by the Bank. The administration fee paid to APS Cyprus comprises of both a fixed and a variable element. The level of fees payable to APS Cyprus varies according to the progress of collections with the majority of the fees being driven by the successful resolution of the portfolio.

Gain on disposal of the operations of the Bank's AMD:

	2017 €'000
Cash consideration	13.726
Fair value of Deferred cash consideration	6.345
Total consideration	20.071
Less: Bank's capital injection to APS Cyprus	(6.725)
	13.346
Less: 51% of the carrying amount of tangible assets sold	(42)
	13.304
Add: Re-measurement of investment in associate as per IFRS 10	6.686
	19.990
Less: Expenses directly relating to the transaction	(978)
Net gain from the transaction	19.012

Deferred installments amounting in total to the nominal value of €6.863 thousand are been paid by APS Cyprus on an annual basis in equal installments of €980 thousand each, during a period of 7 years from the date of acquisition. Payments take place on the first business day of each twelfth month following the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS
25. INVESTMENT IN ASSOCIATE COMPANY (CONTINUED)

For the calculation of the fair value of deferred consideration a discount rate of 2% p.a. was used. As at 31 December 2018 the carrying amount of the deferred consideration was €5.546 thousand (31 December 2017: €6.408 thousand).

Movement in the investment in associate company:

	The Group	
	2018	2017
	€'000	€'000
1 January	**7.600**	-
Dividend paid	**(774)**	-
Initial recognition of investment in associate	-	6.811
Share of profit of investment in associate	**2.171**	789
31 December	**8.997**	7.600

The financial statements of the associate company used in applying the equity method are as of the date that is the same with the Bank's reporting date.

The main financial highlights of the associate company are presented below:

	2018	2017
	€'000	€'000
Total assets	**25.264**	22.064
Total liabilities	**(6.902)**	(6.552)
Net assets	**18.362**	15.512

Transactions between the associate company and the Group recognised in the income statement for the year ended:

	31 December 2018	31 December 2017
	€'000	€'000
Servicer's administration fees (including VAT)	**(22.041)**	(9.229)
License to use services	**471**	233
Recharge of expenses	-	(311)
Provision of support services to servicer	**143**	-

License to use services relate to the use of premises, parking spaces and services provided by the Bank to APS Cyprus.

Balances between associate company and the Group:

	31 December 2018	31 December 2017
	€'000	€'000
Deferred cash consideration receivable by the Bank	**5.546**	6.408
Deposits held with the Bank	**(4.936)**	(1.660)
Contingent liabilities in the form of unutilised limits	**(504)**	(500)
Servicer's administration fees payable by the Group (including VAT)	**(5.550)**	(3.279)
Amounts due from servicer (excluding VAT)	**143**	-

There are no restrictions on the ability of the associate company to transfer funds to the Bank in the form of cash dividends, or to repay loans made by the Bank.

As at 31 December 2018 there are no unrecognised share of losses of the associate company.

NOTES TO THE FINANCIAL STATEMENTS

26. PROPERTY, PLANT AND EQUIPMENT

The Group	Land and buildings 2018 €'000	Plant and equipment 2018 €'000	**Total 2018 €'000**
Cost or valuation			
1 January	85.256	69.727	**154.983**
Additions	-	4.883	4.883
Disposals/transfers	-	(918)	**(918)**
31 December	85.256	73.692	**158.948**
Depreciation			
1 January	-	52.442	**52.442**
Charge for the year	1.199	4.703	**5.902**
Disposals/transfers	-	(885)	**(885)**
31 December	1.199	56.260	**57.459**
Net book value 31 December	84.057	17.432	101.489

The Group	Land and buildings 2017 €'000	Plant and equipment 2017 €'000	**Total 2017 €'000**
Cost or valuation			
1 January	87.395	65.391	**152.786**
Additions	38	6.716	**6.754**
Disposals/transfers	(463)	(2.380)	**(2.843)**
Transfer to investment property (refer to Note 29	(5.350)	-	**(5.350)**
Revaluation of land and buildings	3.636	-	**3.636**
31 December	85.256	69.727	**154.983**
Depreciation			
1 January	2.504	50.634	**53.138**
Charge for the year	1.168	4.126	**5.294**
Disposals/transfers	(105)	(2.318)	**(2.423)**
Revaluation of land and buildings	(3.567)	-	**(3.567)**
31 December	-	52.442	**52.442**
Net book value 31 December	85.256	17.285	**102.541**

The Bank	Land and buildings 2018 €'000	Plant and equipment 2018 €'000	**Total 2018 €'000**
Cost or valuation			
1 January	78.965	67.030	**145.995**
Additions	-	4.848	**4.848**
Disposals/transfers	-	(912)	**(912)**
31 December	78.965	70.966	**149.931**
Depreciation			
1 January	-	50.004	**50.004**
Charge for the year	1.099	4.642	**5.741**
Disposals/transfers	-	(878)	**(878)**
31 December	1.099	53.768	**54.867**
Net book value 31 December	77.866	17.198	**95.064**

NOTES TO THE FINANCIAL STATEMENTS

26. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Bank	Land and buildings 2017 €'000	Plant and equipment 2017 €'000	**Total 2017 €'000**
Cost or valuation			
1 January	81.212	62.799	**144.011**
Additions	-	6.578	**6.578**
Disposals/transfers	(327)	(2.347)	**(2.674)**
Transfer to investment property (refer to Note 29)	(5.937)	-	**(5.937)**
Revaluation of land and buildings	4.017	-	**4.017**
31 December	78.965	67.030	**145.995**
Depreciation			
1 January	2.325	48.196	**50.521**
Charge for the year	1.040	4.059	**5.099**
Disposals/transfers	(7)	(2.251)	**(2.258)**
Revaluation of land and buildings	(3.358)	-	**(3.358)**
31 December	-	50.004	**50.004**
Net book value 31 December	78.965	17.026	**95.991**

Land and buildings were revalued at 31 December 2017, by independent qualified valuers on a market value basis for their existing use.

The fair value measurements of the Group's land and buildings are categorised within level 3 of the fair value hierarchy.

The cost and net book value on a historic cost basis of the freehold land and buildings as at 31 December 2018 amounted to €63.526 thousand (31 December 2017: €63.524 thousand) and €54.504 thousand (31 December 2017: €55.186 thousand) respectively for the Group, and to €60.825 thousand (31 December 2017: €60.825 thousand) and €51.823 thousand (31 December 2017: €52.507 thousand) respectively for the Bank.

The cost of branches under renovation, which are included under plant and equipment, as at 31 December 2018 for the Group and the Bank amounted to €361 thousand (31 December 2017: €588 thousand).

As at 31 December 2018 the value of the revalued freehold land not subject to depreciation amounted to €31.333 thousand (31 December 2017: €31.133 thousand) for the Group and €29.958 thousand (31 December 2017: €29.958 thousand) for the Bank.

27. INTANGIBLE ASSETS

The Group	Computer software 2018 €'000	Goodwil 2018 €'000	Core deposits 2018 €'000	Core loans 2018 €'000	Transitional services agreement 2018 €'000	**Total 2018 €'000**
Cost						
1 January	41.818	25.263	-	-	-	**67.081**
Additions	6.732	-	-	-	-	**6.732**
Disposals	(500)	-	-	-	-	**(500)**
Write off	(1.214)	-	-	-	-	**(1.214)**
Acquisition	-	-	2.801	6.956	2.407	**12.164**
31 December	46.836	25.263	2.801	6.956	2.407	**84.263**
Amortisation or impairment losses						
1 January	22.339	10.488	-	-	-	**32.827**
Charge for the year	4.068	33	93	464	642	**5.300**
Disposals	-	-	-	-	-	**(410)**
31 December	25.997	10.521	93	464	642	**37.717**
Net book value 31 December	20.839	14.742	2.708	6.492	1.765	**46.546**

NOTES TO THE FINANCIAL STATEMENTS
27. INTANGIBLE ASSETS (CONTINUED)

As at the reporting date, a subsidiary company of the Group performed an assessment on the status and development progress of the computer software under development that was included in the category computer software. Based on the assessment that no future economic benefits are expected from the software under development, both from its use and from a disposal, and given the decision taken by the Board during the year to discontinue the development of the software, the Bank derecognised the intangible asset as at the reporting date via a write-off. As a result, a loss on derecognition of €1.214 thousand was recorded in profit or loss, and was included in administrative expenses (Note 13).

On 31 December 2018, the Group assessed whether there is any impairment of goodwill arising on the acquisition of Pancyprian Insurance Ltd, by calculating the estimated fair value of the company, based on the future cash flows discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the investments. As a result of this assessment, no impairment of goodwill arose. Five years of forecasted profits before tax were included in the discounted cash flow model considering an increase in revenues driven from the acquired portfolio resulted from the Acquisition as assumed by Management. A long term growth rate into perpetuity has been used to calculate the terminal value. The key assumptions described above may change as economic and market conditions change and actual results differ from management expectations. The Group estimated that reasonably possible changes in the input parameters of the assumptions used would not cause the amount of goodwill to decline below the carrying amount.

The Group	Computer software 2017 €'000	Goodwill 2017 €'000	**Total 2017 €'000**
Cost			
1 January	31.298	25.231	**56.529**
Additions	10.536	32	**10.568**
Disposals	(16)	-	**(16)**
31 December	41.818	25.263	**67.081**
Amortisation or impairment losses			
1 January	19.566	10.437	**30.003**
Charge for the year	2.789	33	**2.822**
Disposals	(16)	-	**(16)**
Impairment	-	8	**18**
31 December	22.339	10.488	**32.827**
Net book value 31 December	19.479	14.775	**34.254**

During 2017 Present value of acquired in-force business (PVIFs) of value of €32 thousand were acquired by Pancyprian Insurance Ltd.

The Bank	Computer software 2018 €'000	Core deposits 2018 €'000	Core loans 2018 €'000	Transitional services agreement 2018 €'000	**Total 2018 €'000**
Cost					
1 January	40.208	-	-	-	**40.208**
Additions	6.571	-	-	-	**6.571**
Disposals	(500)	-	-	-	**(500)**
Acquisition	-	2.801	6.956	2.407	**12.164**
31 December	46.279	2.801	6.956	2.407	**58.443**
Amortisation					
1 January	21.913	-	-	-	**21.913**
Charge for the year	4.031	93	464	642	**5.230**
Disposals	(410)	-	-	-	**(410)**
31 December	25.534	93	464	642	**26.733**
Net book value 31 December	20.745	2.708	6.492	1.765	**31.710**

NOTES TO THE FINANCIAL STATEMENTS
27. INTANGIBLE ASSETS (CONTINUED)

Core deposits

As per the agreement for the acquisition of part of CCB's banking operations, the Bank on-boarded some short-term deposits (e.g. current accounts) with credit balances over medium-to-long periods that carry lower interest rates compared to other medium-to-long term accounts. In such cases, an intangible asset was recognised since the Bank benefits from such lower interest expense, compared to the interest expense that would accrue to the bank should the borrowers have deposited the core amount in a term deposit.

Customer relationships (Purchased credit cards and overdrafts)

An additional intangible was recognised from the on-boarding of loans with revolving nature such as overdrafts and credit card accounts. Customers on-boarded by the Bank are expected to continue utilize their overdraft and credit card accounts in the future, creating an additional benefit to the Bank.

Transitional Service Agreement

As part of the Transaction, the Bank and CCB have signed a Transitional Services Agreement under which the latter will be providing support services to the Bank during the 15-month integration / transitional period. Although the Bank will be paying a fee to cover for OPEX associated with the provision of running expenses, for the transitional services per se, as well as the associated personnel costs and central support costs, the Bank will be paying a nominal fee of €1. The fact that only a nominal fee of €1 will be payable by the Bank for these services, gives rise to an economic benefit (intangible asset) for the Bank.

The Bank	Computer software 2017 €'000	**Total 2017 €'000**
Cost		
1 January	30.810	**30.810**
Additions	9.398	**9.398**
31 December	40.208	**40.208**
Amortisation		
1 January	19.147	**19.147**
Charge for the year	2.766	**2.766**
31 December	21.913	**21.913**
Net book value 31 December	18.295	**18.295**

28. DEFERRED TAX ASSET

Deferred taxation arose as follows:

	The Group		The Bank	
	2018 €'000	2017 €'000	**2018 €'000**	2017 €'000
Temporary difference of negative goodwill (refer to Note 49)	**2.727**	-	**2.727**	-
Tax losses	**13.599**	12.286	**13.599**	12.286
	16.326	12.286	**16.326**	12.286

NOTES TO THE FINANCIAL STATEMENTS

28. DEFERRED TAX (CONTINUED)

Movement of Deferred tax asset:

2018 The Group and the Bank

	Balance 1 January	Effect on income statement	Effect on revenue reserve	Balance 31 December
	€'000	€'000	€'000	€'000
Temporary difference of negative goodwill	-	2.727	-	2.727
Tax losses	12.286	(1.723)	-	10.563
Tax losses - IFRS 9 initial application	-	-	3.036	3.036
	12.286	1.004	3.036	16.326

2017	Balance 1 January	Effect on income statement	Balance 31 December
	€'000	€'000	€'000
Property revaluation differences and differences between depreciation and capital allowances	1	(1)	-
Tax losses	8.464	3.822	12.286
	8.465	3.821	12.286

An analysis of accumulated tax losses is presented below:

	Tax losses	Tax losses for which deferred tax was not recognised	Tax losses for which deferred tax was recognised
	€'000	€'000	€'000
Expiring within the current year	227.612	192.394	35.218
Expiring within 3 years	166.845	128.130	38.715
Expiring between 4 and 5 years	10.576	-	10.576
	405.033	320.524	84.509

The carrying amount of the deferred tax asset is based on judgements of the Management of the Bank on its ability to generate future taxable profits. These judgements are based on available information including historical data, improved macroeconomic estimates, the reduction in deposit rates, the stabilisation of the non-performing loans, the Bank's impairment process and the results of operations.

A deferred tax of €1.723 thousand was debited in the Income Statement as a result of the reassessment of future taxable profits (taking into consideration the Acquisition) against which the existing taxable losses can be utilised.

A deferred tax asset of €3.136 thousand (refer to Note 49) was recognised during the year as a result of the Acquisition, due to the fact that negative goodwill was not considered taxable. An amount of €409 thousand was debited in the Income Statement representing the movement of the temporary difference arising from the negative goodwill.

The applicable tax rate is 12,5%.The tax losses relate to the same jurisdiction with the deferred tax asset.

NOTES TO THE FINANCIAL STATEMENTS

29. OTHER ASSETS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Fair value of derivatives (refer to Note 38)	**567**	229	**567**	229
Prepaid expenses	**2.524**	2.179	**2.331**	2.172
Assets held to cover liabilities of unit linked funds (refer to Note 33)	**15.863**	15.396	-	-
Indemnification assets	**71.003**	-	**71.003**	-
Assets held for sale	-	7.161	-	7.161
Stock of properties	**164.104**	148.186	**103.210**	10.637
Investment property	**5.350**	5.350	**5.937**	5.937
Debtors and other receivables	**149.087**	53.295	**139.534**	26.232
	408.498	231.796	**322.582**	52.368

As at 31 December 2018, other assets amounting to €408.498 thousand (2017: €231.796 thousand) included among others:

Assets held to cover liabilities of unit linked funds

Assets held to cover liabilities of unit linked funds compise of:

	The Group	
	2018	2017
	€'000	€'000
Deposits	**4.360**	3.740
Government bonds	**400**	500
Equity securities	**11.103**	11.156
	15.863	15.396

Indemnification Assets

Indemnification assets were recognised as a result of the Acquisition. The movement of the carrying amount of the indemnification assets is analysed below:

	The Group and the Bank	
	2018	2017
	€'000	€'000
1 January	-	-
Initial recognition	**78.435**	-
Unwinding of discount	**(286)**	-
Charge for the year (refer to Note 14)	**(7.138)**	-
	71.011	-
Accumulated Expected Credit Losses	**(8)**	-
31 December	**71.003**	-
Estimated undiscounted amount	**74.270**	-

(a) Indemnification asset – Asset Protection Scheme (APS)

An amount of €64.173 thousand relates to the agreement of an asset protection scheme (APS) entered into by the Bank and ex-CCB (refer to Note 5.9. and 3.23.). Ex-CCB's obligations under the APS are guaranteed by the Republic of Cyprus (RoC) pursuant to a guarantee agreement entered prior to the completion of the Acquisition between the Bank and RoC. The APS is a single contract providing credit protection to the Bank in respect of parts of the acquired loan portfolio (covered assets) against future losses. There is no change in the recognition and measurement of the covered assets as a result of the APS, which are measured at amortised cost subsequent to the Acquisition. Impairment on covered assets is assessed and charged in accordance with the Group's accounting policy for financial assets carried at amortised cost. There is no change in how gains and losses on the covered assets are recognised in the income statement or in the statement of comprehensive income. The APS indemnification assset was initially recognised at €71.605 thousand. As at year end, the amortised cost comprised of:

NOTES TO THE FINANCIAL STATEMENTS

29. OTHER ASSETS (CONTINUED)

- The present value of claims to be made by the Bank to the RoC in the event of APS losses, amounting to €117.282 thousand;
- The present value of fees payable from the Bank to the RoC, amounting to €53.101 thousand which were discounted at the market interest rate reflecting the credit risk of the RoC.

The estimated undiscounted amount of the APS indemnification asset amounted to €66.677 thousand.

As at 31 December 2018, the APS indemnification asset amounting to €64.173 thousand is carried at amortised cost reflecting re-measurement of the estimated future cash flows arising from claims to be made by the Bank to the RoC in the event of APS losses and the present value of fees payable from the Bank to the RoC, discounted at the original effective interest rate, being the market rate used to measure the fair value of the APS asset on Acquisition date.

(b) Indemnification asset – certain off-balance items acquired

Also, in accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses (after enforcement against cash collateral at Completion) incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Assumed Liabilities which include various off balance sheet exposures. The aforementioned indemnified off balance sheet exposures relate to issued loan commitments and financial guarantee contracts. A respective indemnification asset with an amount of €6.830 thousand equivalent to the estimated losses in respect of the indemnified off balance sheet exposures has been recognised in the financial statements of the Bank.

As at 31 December 2018, the indemnification asset relating to the off-balance sheet exposures amounting to €6.830 thousand, is carried at amortised cost reflecting re-measurement of the estimated losses arising from the indemnified off-balance sheet exposures, discounted at the original effective interest rate, being the market rate used to measure the fair value of the indemnification asset relating to the off-balance sheet exposures on acquisition date.

The estimated undiscounted amount of the indemnified off balance sheet assets amounted to €7.593 thousand.

Assets held for sale

On 6 June 2018, the Bank completed the sale of a non performing loan portfolio of predominantly non retail unsecured exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange ("the Transaction"/ the NPE trade agreement).

The gross contractual outstanding balance of the assets sold pursuant to the Transaction was €144 million (€7.161 thousand being the net book value) comprising of 1.082 borrowers and 1.809 facilities (in each case as at 31 May 2018). The NPE trade agreement did not have a material impact on the income statement and capital position of the Bank due to existing provisions taken against these assets.

The NPE trade agreement was in line with the European Central Bank and International Monetary Fund guidelines on the management of non performing loans.

Stock of properties

The carrying amount of stock of properties as at 31 December 2018 amounted to €164.104 thousand (31 December 2017: €148.186 thousand).

The stock of properties includes houses, flats, offices and other commercial properties, industrial buildings and land (fields and plots). The Bank, establishes the fair value of the stock of properties owned through valuations carried out by independent qualified valuers on the basis of their current condition and use. As at 31 December 2018, the fair value of the properties owned amounted to €220.912 thousand (31 December 2017 €203.527 thousand).

The Bank, as part of its non performing exposures management, is entering into a number of debt to asset swap transactions or repossess asset through the foreclosure process. Repossessed assets are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs) which are formed with the purpose of holding and managing these immovable properties (refer to Note 24 for the recent reorganization plan). Until title deeds are issued in the name of the Bank/SPVs, the ownership is ensured via filing of the acquisition agreement in the Land Registry. As at 31 December 2018, stock of properties owned by the Bank indirectly through SPVs amounted to €59.327 thousand (31 December 2017: €135.498 thousand).

NOTES TO THE FINANCIAL STATEMENTS

29. OTHER ASSETS (CONTINUED)

Stock of property includes an amount of €1.237 thousand (2017: €1.399 thousand) previously categorised under owner-occupied property which are no longer in use. The remaining relates to assets from customers' debt settlement and is presented below:

	Banking & Financial services	Insurance Services	**Total**
	€'000	€'000	**€'000**
1 January 2018	146.057	730	**146.787**
Additions	50.580	54	**50.634**
Disposals	(32.679)	(521)	**(33.200)**
Impairment losses	(1.353)	(1)	**(1.354)**
31 December 2018	162.605	262	**162.867**

	Banking & Financial services	Insurance Services	**Total**
	€'000	€'000	**€'000**
1 January 2017	115.477	793	**116.270**
Additions	94.986	-	**94.986**
Disposals	(64.144)	-	**(64.144)**
Impairment losses	(262)	(63)	**(325)**
31 December 2017	146.057	730	**146.787**

Investment property

The use of some properties of the Group changed from owner occupied to investment property. The properties were remeasured to fair value and reclassified during the year ended 31 December 2017 from "property, plant and equipment" to "other assets". The fair value was determined from market-based valuations undertaken by professionally qualified valuers. The fair value measurements of the Group's investment property are categorised within level 3 of the fair value hierarchy.

During the year ended 31 December 2018, an amount of €471 thousand (Bank: €539 thousand) was recognised as rental income from investment property in the income statement, in other income (2017: Group: €233 thousand, Bank: €305 thousand).

Debtors and other receivables

Pursuant to the BTA and given that the Final Asset Value was less than the Target Asset Value a receivable of €48,5 million was recognised as part of Debtors and Other Receivables (refer to Note 49.1.) and this was settled during the first quarter of 2019 mostly in the form of immovable properties.

Debtors and other receivables also include an amount of €2.576 thousand that relates to expenses incurred for the capital raise (refer to Note 52). These will be set off against the resulted share premium.

NOTES TO THE FINANCIAL STATEMENTS

30. DEPOSITS BY BANKS

	The Group and the Bank	
	2018	2017
	€'000	€'000
Interbank accounts	**70.097**	73.243
Cheque clearing	**36.698**	24.105
Money Market deposits	**109.404**	79.007
	216.199	176.355

The below analysis of deposits by banks is based on their remaining contractual maturity as at 31 December.

	The Group and the Bank	
	2018	2017
	€'000	€'000
On demand	**108.204**	97.348
Within three months	**8.301**	17.715
Between three months and one year	**58.125**	61.292
Between one year and five years	**29.106**	-
Over five years	**12.463**	-
	216.199	176.355

On 31 December 2018, an amount of €3.617 thousand (31 December 2017: €4.107 thousand) is pledged as collateral on deposits by banks, being common practice among financial institutions.

31. CUSTOMER DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Demand deposits	**3.609.453**	2.862.430	**3.609.609**	2.862.430
Savings deposits	**2.549.207**	632.878	**2.549.207**	632.878
Notice deposits	**1.191.118**	357.021	**1.191.118**	357.021
Time deposits	**7.359.390**	1.955.796	**7.359.390**	1.955.796
	14.709.168	5.808.125	**14.709.324**	5.808.125

The below analysis of customer deposits and other customer accounts is based on their remaining contractual maturity as at 31 December:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
On demand	**6.047.639**	3.428.838	**6.047.795**	3.428.838
Within three months	**3.151.206**	1.295.312	**3.151.206**	1.295.312
Between three months and one year	**4.772.043**	937.058	**4.772.043**	937.058
Between one year and five years	**462.683**	144.537	**462.683**	144.537
Over five years	**275.597**	2.380	**275.597**	2.380
	14.709.168	5.808.125	**14.709.324**	5.808.125

NOTES TO THE FINANCIAL STATEMENTS

32. DEFERRED TAX LIABILITY

Deferred taxation arose as follows:	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Property revaluation differences and differences between depreciation and capital allowances	**2.825**	2.498	**2.617**	2.351
Temporary difference of negative goodwill (refer to Note 49)	**41.632**	-	**41.632**	-
	44.457	2.498	**44.249**	2.351

Movement of Deferred tax liability:

2018 — The Group

	Balance 1 January	Effect on revaluation reserve	Effect on income statement	Balance 31 December
	€'000	€'000	€'000	€'000
Property revaluation differences and differences between depreciation and capital allowances	2.498	(73)	400	2.825
Temporary difference of negative goodwill	-	-	41.632	41.632
	2.498	(73)	42.032	44.457

2017 — The Group

	Balance 1 January	Effect on revaluation reserve	Effect on income statement	Balance 31 December
	€'000	€'000	€'000	€'000
Property revaluation differences and differences between depreciation and capital allowances	1.975	236	287	2.498
Other temporary differences	5	-	(5)	-
	1.980	236	282	2.498

2018 — The Bank

	Balance 1 January	Effect on revaluation reserve	Effect on income statement	Balance 31 December
	€'000	€'000	€'000	€'000
Property revaluation differences and differences between depreciation and capital allowances	2.351	(69)	335	2.617
Temporary difference of negative goodwill	-	-	41.632	41.632
	2.351	(69)	41.967	44.249

2017 — The Bank

	Balance 1 January	Effect on revaluation reserve	Effect on income statement	Balance 31 December
	€'000	€'000	€'000	€'000
Property revaluation differences and differences between depreciation and capital allowances	1.792	226	333	2.351
Other temporary differences	8	-	(8)	-
	1.800	226	325	2.351

NOTES TO THE FINANCIAL STATEMENTS

A deferred tax liability of €45.689 thousand (refer to Note 49) was recognised during the year as a result of the Acquisition, due to the fact that negative goodwill was not considered taxable. An amount of €4.056 thousand was credited in the Income Statement representing the movement of the temporary difference arising from the negative goodwill.

33. OTHER LIABILITIES

		The Group		The Bank
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Fair value of derivatives (refer to Note 38)	**7.981**	5.212	**7.981**	5.212
Accrued expenses	**32.186**	41.572	**31.704**	40.934
Liabilities of unit linked funds	**15.863**	15.396	-	-
Financial guarantees and loan commitments issued	**36.747**	11.503	**36.747**	11.503
Provisions for pending litigations or complaints and/or claims	**7.761**	8.183	**7.761**	8.183
Other accounts payable	**96.288**	70.567	**53.579**	26.301
	196.826	152.433	**137.772**	92.133

Financial guarantees and loan commitments issued:

	The Group and the Bank	
	2018	2017
	€'000	€'000
1 January	**11.503**	14.823
Adjustment on initial application of IFRS 9	**(78)**	-
Restated balance at 1 January 2018	**11.425**	14.823
Off balance exposures recognised on Acquisition (refer to Note 49.7.)	**25.081**	-
Charge/(release) for the year	**2.298**	(3.220)
Reversal of fair value of financial guarantees and loan commitments acquired	**(2.060)**	-
Exchange difference	**3**	(100)
31 December	**36.747**	11.503

Provisions for pending litigations or complaints and/or claims:

	The Group and the Bank	
	2018	2017
	€'000	€'000
1 January	**8.183**	8.019
(Release)/charge for the year	**(375)**	179
Provision utilised	**(47)**	(15)
31 December	**7.761**	8.183

The amounts recognised as provisions are the best estimates of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the facts and circumstances of any pending litigations or complaints and/or claims. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

Commission for the Protection of Competition

On 22 May 2017 the Commission for the Protection of Competition (CPC) announced its final decision in respect of the report submitted on 4 January 2010 by FBME Card Services Limited against Hellenic Bank and other banks as well as JCC Payment Systems Limited. In its decision CPC decided, among others, to impose a fine on Hellenic Bank of €1.569.989 for contravening section 6(1)(a) of the Protection of Competition Law 2014 and the corresponding article 102 of the Treaty on the Functioning of the European Union. Hellenic Bank has filed a recourse before the Administrative Court in Cyprus for the annulment of the aforementioned CPC decision. Any resulting liability arising from the imposed fine, is not expected to have a material impact on the financial position of the Group as the Bank has sufficiently provided for it.

NOTES TO THE FINANCIAL STATEMENTS

34. LOAN CAPITAL

	The Group		The Bank	
	2018	2017	**2018**	2017
Tier 1 Capital				
Convertible Capital Securities 1	**1.597**	1.597	**1.597**	1.597
Convertible Capital Securities 2	**128.070**	128.070	**128.070**	128.070
	129.667	129.667	**129.667**	129.667
Tier 2 Capital				
Non-Convertible Bonds 2018	-	10.000	-	10.000
	-	10.000	-	10.000
	129.667	139.667	**129.667**	139.667

Full details/terms of issue of the Bonds and Securities of the Bank are included in the Prospectus and the Supplementary Prospectuses of each issue.

Tier 1 Capital

Convertible Capital Securities 1 (CCS1)

The Convertible Capital Securities 1 are perpetual securities with no maturity date. Under the terms of their issue, they bear an annual fixed interest rate of 11% which is payable on a quarterly basis at the end of each Interest Payment period. Interest payment dates are set to be the 31 March, 30 June, 30 September and 31 December.

The Bank may, at its sole discretion, partially or fully cancel the interest payment on non-cumulative basis at any time considered necessary or desirable and for any reason, for an unlimited time period and without any restriction to the Bank.

The interest payment will be paid by the Available Distributable Items of the Bank.

Without this affecting the right of the Bank on cancelling the interest payment at its sole discretion, as mentioned above, the mandatory cancellation of the interest payment will apply in cases where:

- the Bank does not possess the necessary Available Distributable Items for such an interest payment on CCS1, or
- the Bank or the Group is in breach of applicable laws, regulations, requirements, guidelines and policies regarding the Bank's or the Group's capital requirements, or
- there is a requirement by the Central Bank of Cyprus at its sole discretion, as the competent authority, to cancel all or part of an interest payment.

Interest cancellation will not constitute an event of default, will not impose any restrictions on the Bank and will not grant the right to CCS1 holders to apply for the liquidation or resolution of the Bank. The Bank may use any cancelled interest payment without restrictions in order to meet its obligations, as they fall due.

The CCS1 are unsecured and subordinated obligations of the Bank and are classified as Tier 1 capital securities in accordance with the Directive of Capital Requirements and Large Exposures (as amended, revised or replaced) and any relevant European Union Directives and Regulations as applied in Cyprus or any other requirements that may apply.

The rights and claims of CCS1 holders:

(i) are subordinated to the claims of the Bank's creditors, which are:

- depositors or other creditors whose claims are not subordinated to claims of the depositors,
- creditors whose claims are subordinated, except those whose claims rank pari passu with the claims of CCS1 holders,
- Bank bondholders that are classified as Capital Tier 2 (Tier 2), whose claims are subordinated,
- holders of securities that are issued or guaranteed by the Bank and ranked in higher priority than the CCS1.

(ii) Rank pari passu with the claims of other existing issues of the Bank (Capital Securities 2003 and NCPCS) and any other future bond and other securities issues of the Bank that are classified as Tier 1, excluding ordinary shares.

(iii) They have priority only in respect of the Bank's ordinary shareholders.

NOTES TO THE FINANCIAL STATEMENTS
34. LOAN CAPITAL (CONTINUED)

Under the provisions of the Prospectus dated 30 September 2013 the Bank may, at its sole discretion, redeem, following a notification of CCS1 holders and the Trustee, at par including accrued interest, excluding any cancelled interest, the total or part of the CCS1, on 31 October 2018 or on any interest payment date after that date, provided that the financial position and/or the solvency of the Bank and/or the Group are not adversely affected by such a redemption and after approval by the Central Bank of Cyprus or other competent supervisory authority. In case of redemption of part of the CCS1, the redemption will apply for all holders of CCS1 in proportion to the CCS1 they hold.

The CCS1 are also redeemable at the sole discretion of the Bank, at or after their issuance (after approval of the Central Bank of Cyprus or other competent authority and given that events or conditions referred to in (i) or/and (ii) below, as applicable, could not reasonably be anticipated by the Bank at the time of the issue of CCS1 and deemed by the Central Bank of Cyprus that such changes in (i) below are considered almost certain), in whole and not partly, at par including accrued interest not cancelled:

(i) when as a result of any change or proposed change in Laws or Regulations of the Republic of Cyprus, the relevant Directives, Regulations or Laws in relation to the Credit Institutions or change or proposed change in the application or official interpretation, the CCS1 cease to be considered:
   (a) Tier 1 Capital and/or
   (b) appropriate funds for inclusion in the calculation of capital requirements as defined by Troika (as long as the Hellenic Bank or the Group is required to maintain Common Equity Tier 1 ratio equal to or greater than 9%).

(ii) if the Bank shall not be entitled to claim any deduction in the calculation of tax liabilities in Cyprus with respect to any interest payment on the next interest payment date or if the amount of any deduction for the Bank would be greatly reduced.

All CCS1 redeemed by the Bank will be cancelled and will not be reissued or resold. The Bank shall cease to have any obligations in regards to any CCS1 that may be cancelled.

On 9 December 2013, in accordance with the above provisions, and at its sole discretion, the Bank announced the mandatory cancellation of the interest payment as a result of the inexistence of the required Available Distributable Items for such interest payment. The mandatory cancellation of interest payment will be valid unless the Bank informs the holders of the CCS1 otherwise.

Any redemption of CCS1 will be subject to prior approval from the Central Bank of Cyprus, as the supervisory authority and/or any other competent authority.

The CCS1 will mandatorily and irrevocably be converted into ordinary shares, if any of the following occur:

(a) The Common Equity Tier 1 ratio of the Bank or the Group after 31 October 2013 or if this date is amended by the Central Bank of Cyprus, after this new date, has decreased, or remains below 9% (as long as Hellenic Bank or the Group is required, by the Central Bank of Cyprus, to maintain its Common Equity Tier 1 ratio equal to or greater than 9%).
(b) The Common Equity Tier 1 ratio of the Bank or the Group at any time decreases or remains below the applicable percentage required, by the Central Bank of Cyprus, to be maintained by the Bank or the Group with maximum ratio of Common Equity Tier 1 of 9%.
(c) The Common Equity Tier 1 ratio of the Bank or the Group is decreased below 5,125%.
(d) If any Non-Viability Event occurs for the Bank or the Bank may be subject to state aid measures.

The conversion amount will be, as applicable, (i) the amount required to restore the Common Equity Tier 1 ratio of the Bank and/or the Group to 5,125% and/or to 9% (for the latter, as long as Hellenic Bank or the Group is required to maintain the Common Equity Tier 1 ratio equal to or greater than 9%) and/or the applicable ratio that is required, at any time, from the Central Bank of Cyprus with maximum ratio of Common Equity Tier 1 Capital of 9% or (ii) the amount required so that Hellenic Bank is considered viable by the Central Bank of Cyprus, in each case up to the entire nominal amount of CCS1. Any conversion will apply pro rata to the outstanding balance of CCS1.

In accordance with the provisions of the Prospectus dated 30 September 2013:

The CCS1 will be converted into new fully paid ordinary shares of Hellenic Bank at the Mandatory Conversion Price, which will be equal to the higher of:

(i) the Mandatory Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,

NOTES TO THE FINANCIAL STATEMENTS
34. LOAN CAPITAL (CONTINUED)

(ii) the minimum conversion price of €0,10 and,
(iii) the nominal value of the Bank's ordinary shares

The CCS1 holders may voluntarily convert them into fully paid ordinary shares of the Bank, at predetermined periods each year at the Voluntary Conversion Price, which will be equal to the higher of:
(i) the Voluntary Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
(ii) the minimum conversion price of €0,15 and,
(iii) the nominal value of the Bank's ordinary shares.

On 28 February 2014, under the provisions of the Prospectus dated 30 September 2013, within the implementation framework of the issue terms of CCS1 and as a result of the formation of the Common Equity Tier 1 ratio of the Group and the Bank being below the minimum required supervisory ratio of 9%, CCS1 of a total value of €85.873.871 were mandatorily and irrevocably converted, without any obligation to obtain the consent of the CCS1 holders, to shares so that the lower of the two, Common Equity Tier 1 Ratio of the Group and the Bank is increased to 9%.

Furthermore, on 29 August 2014 and on 26 October 2014 and as a result of the Common Equity Tier 1 Ratio of the Group and the Bank being below the minimum required supervisory ratio of 8%, as set by the Central Bank's circular dated 29 May 2014, CCS1 of total value of €15.106.520 and €23.804.161 respectively, were mandatorily and irrevocably converted to shares so that, the lower of the two, Common Equity Tier 1 Ratio of the Bank and the Group is increased to 8%.

The mandatory conversion was applied pro rata to the outstanding balance of CCS1 for each investor on the conversion date and the applicable mandatory Conversion Price of CCS1 to shares was set at €0,10. All CCS1 that have been converted into shares were automatically cancelled and any right or obligation derived from the Prospectus ceased to be valid.

The CCS1 are listed on the Cyprus Stock Exchange.

Convertible Capital Securities 2 (CCS2)

The Convertible Capital Securities 2 are perpetual securities with no maturity date. Under the terms of their issue, they bear an annual fixed interest rate of 10% which is payable on a quarterly basis at the end of each Interest Payment period. Interest payment dates are set to be the 31 March, 30 June, 30 September and 31 December.

The Bank may, at its sole discretion, partially or fully cancel the interest payment on non-cumulative basis at any time considered necessary or desirable and for any reason, for an indefinite time period and without any restriction to the Bank.

The interest payment will be paid by the Available Distributable Items of the Bank.

Without this affecting the right of the Bank on cancelling the interest payment at its sole discretion, as mentioned above, the mandatory cancellation of the interest payment will apply in cases where:
(i) the Bank does not possess the necessary Available Distributable Items for such an interest payment on CCS2, or
(i) the Bank or the Group is in breach of applicable laws, regulations, requirements, guidelines and policies regarding the Bank's or the Group's capital requirements, or
(i) there is a requirement by the Central Bank of Cyprus at its sole discretion, as the competent authority, to cancel all or part of an interest payment.

Interest cancellation will not constitute an event of default, will not impose any restrictions on the Bank and will not grant the right to CCS2 holders to apply for the liquidation or resolution of the Bank. The Bank may use any cancelled interest payment without restrictions in order to meet its obligations, as they fall due.

CCS2 were offered (CCS2 Voluntary Exchange Offer) to the holders of the following securities:
- Bonds due 2016 (ISIN CY0140040110), issued under the issuance terms of the Prospectus dated 11 May 2006,
- Bonds due 2018 issued on 1 September 2008,
- Bonds due 2019 (ISIN CY0140940111) issued on 11 March 2009 under the issuance terms included in the Prospectus dated 18 May 2009 and,
- Capital securities (ISIN CY0048940114) issued on 18 April 2003 under the issuance terms of the Prospectus dated 7 November 2003.

NOTES TO THE FINANCIAL STATEMENTS

34. LOAN CAPITAL (CONTINUED)

The CCS2 are unsecured and subordinated obligations of the Bank and are classified as Tier 1 capital securities in accordance with the Directive of Capital Requirements and Large Exposures (as amended, revised or replaced) and any relevant European Union Directives and Regulations as applied in Cyprus or any other requirements that may apply.

The rights and claims of CCS2 holders:

(i) are subordinated to the claims of the Bank's creditors, which are
- depositors or other creditors whose claims are not subordinated to claims of the depositors,
- creditors whose claims are subordinated, except those whose claims rank pari passu with the claims of CCS2 holders,
- Bank bondholders that are classified as Capital Tier 2 (Tier 2), whose claims are subordinated,
- Holders of securities that are issued or guaranteed by the Bank and their rank is higher of the rank of CCS2.

(ii) Rank pari passu with the claims of other existing issues of the Bank (Capital Securities 2003 and NCPCS) and any other future bond and other securities issues of the Bank that are classified as Tier 1, with the exception of the ordinary shares.

(iii) They have priority only in respect of the Bank's ordinary shareholders.

Under the provisions of the Prospectus dated 30 September 2013 the Bank may, at its sole discretion, redeem, following a notification of CCS2 holders and the Trustee, at par including accrued interest, excluding any cancelled interest, the total or part of the CCS2, on 31 October 2018 or on any interest payment date after that date, provided that the financial position and/or the solvency of the Bank and/or the Group are not adversely affected by such a redemption and after approval by the Central Bank of Cyprus or other competent supervisory authority. In case of redemption of part of the CCS2, the redemption will apply for all holders of CCS2 in proportion to the CCS2 they hold.

The CCS2 are also redeemable at the sole discretion of the Bank, at or after their issuance (after approval of the Central Bank of Cyprus or other competent authority and given that events or conditions referred to in (i) or/and (ii) below, as applicable, could not reasonably be anticipated by the Bank at the time of the issue of CCS2 and deemed by the Central Bank of Cyprus that such changes in (i) below are considered almost certain), in whole and not part of, at par including accrued interest not cancelled:

(i) when as a result of any change or proposed change in Laws or Regulations of the Republic of Cyprus, the relevant Directives, Regulations or Laws in relation to the Credit Institutions or change or proposed change in the application or official interpretation, the CCS2 cease to be considered:
  (a) Tier 1 capital and/or
  (b) appropriate funds for inclusion in the calculation of capital requirements as defined by Troika (as long as the Hellenic Bank or the Group is required to maintain Common Equity Tier 1 ratio equal to or greater than 9%).

(i) if the Bank shall not be entitled to claim any deduction in the calculation of tax liabilities in Cyprus with respect to any interest payment on the next interest payment date or the amount of any deduction for the Bank would be significantly reduced.

All CCS2 redeemed by the Bank will be cancelled and will not be reissued or resold. The Bank shall cease to have any obligations in regards to any CCS2 that may be cancelled.

On 9 December 2013, in accordance with the above provisions, and at its sole discretion, the Bank announced mandatorily the cancellation of the interest payment as a result of inexistence of the required Available Distributable Items for such interest payment. The mandatory cancellation of interest payment will be valid unless the Bank warns the holders of the CCS2 otherwise.

Any redemption of CCS2 will be subject to prior approval from the Central Bank of Cyprus, as supervisory authority or/and any other competent authority.

The CCS2 will mandatorily and irrevocably be converted into ordinary shares, if any of the following occur:

(a) The Common Equity Tier 1 ratio of the Bank or the Group after 31 October 2013 or if this date is amended by the Central Bank of Cyprus, after this new date, has decreased, or remains below 9% (as long as Hellenic Bank or the Group is required, by the Central Bank of Cyprus, to maintain its Common Equity Tier 1 ratio equal to or greater than 9%).

(b) the Common Equity Tier 1 ratio of the Bank or the Group at any time decreases or remains below the applicable percentage required, by the Central Bank of Cyprus, to be maintained by the Bank or the Group with maximum ratio of Common Equity Tier 1 of 9%.

(c) The Common Equity Tier 1 ratio of the Bank or the Group is decreased below 5,125%.

(d) If any Non-Viability Event occurs for the Bank or the Bank may be subject to State Aid measures.

NOTES TO THE FINANCIAL STATEMENTS
34. LOAN CAPITAL (CONTINUED)

The conversion amount will be, as applicable, (i) the amount required to restore the Common Equity Tier 1 ratio of the Bank and/or the Group to 5,125% and/or to 9% (for the latter, as long as Hellenic Bank or the Group is required to maintain the Common Equity Tier 1 ratio equal to or greater than 9%) and/or the applicable ratio that is required, at any time, from the Central Bank of Cyprus with maximum ratio of Common Equity Tier 1 Capital of 9% or (ii) the amount required so that Hellenic Bank is considered viable by the Central Bank of Cyprus, in each case up to the entire nominal amount of CCS2. Any conversion will apply pro rata to the outstanding balance of CCS2.

In accordance with the provisions of the Prospectus dated 30 September 2013:

The CCS2 will be converted into new fully paid ordinary shares of Hellenic Bank at the Mandatory Conversion Price, which will be equal to the higher of:
(i) the Mandatory Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
(ii) the minimum conversion price of €0,05 and,
(iii) the nominal value of the Bank's ordinary shares.

The CCS2 holders may voluntarily convert them into fully paid ordinary shares of the Bank, at predetermined periods each year at the "Voluntary Conversion Price", which will be equal to the higher of:
- the Voluntary Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
- the minimum conversion price of €0,15 and,
- the nominal value of the Bank's ordinary shares.

The CCS2 are listed on the Cyprus Stock Exchange.

Further to the announcement of Hellenic Bank Public Company Ltd dated 31 October 2014, concerning the decision of the Board of Directors of the Bank for the issue of shares via rights issue and based on the provisions of the Prospectus dated 30 September 2013 (the "Prospectus") part IV/B/III paragraph 10 C1 and part IV/C/III paragraph 11 C1, the minimum price of mandatory conversion of the CCS1 was adjusted from €0,10 to €0,08, the minimum price of voluntary conversion of the CCS1 was adjusted from €0,15 to €0,13 as well as the minimum price of mandatory conversion of the CCS2 was adjusted from €0,05 to €0,04 and the minimum price of voluntary conversion of the CCS2 was adjusted from €0,15 to €0,13.

These adjustments became effective from 18 November 2014, the date of the first CSE session that the shares of Hellenic Bank traded ex-rights.

Following the approval of the relevant Special Resolution by the Extraordinary General Meeting which was held on the 27 February 2015, the issued share capital of the Bank, has been consolidated and divided and based on the provisions of the Prospectus dated 30 September 2013, Part IV/B/III paragraph C1 (i) and Part IV/C/III paragraph C1 (i), the following adjustments took place which were effective from the 27 February 2015:

Minimum Price of Mandatory Conversion:
- For CCS1 the price was adjusted from €0,08 to €4,00
- For CCS2 the price was adjusted from €0,04 to €2,00

Minimum Price of Voluntary Conversion:
- For CCS1 the price was adjusted from €0,13 to €6,50
- For CCS2 the price was adjusted from €0,13 to €6,50

As long as the Bank continues to be required to maintain CET1 ratio equal to or greater than 9% pursuant to the provisions of the Prospectus dated 30 September 2013 for the issue of CCS1 and CCS2, each of the CCS1 and CCS2 will be mandatorily converted into ordinary shares of the Bank, if the CET1 ratio of the Bank, on a consolidated basis, decreases or remains below 9% and/or in the event of any other occurrences specified as contingent conversion triggers for mandatory conversion in the Prospectus.

NOTES TO THE FINANCIAL STATEMENTS
34. LOAN CAPITAL (CONTINUED)

Pursuant to the terms of the Prospectus dated 30 September 2013, CCS1/CCS2 holders may exercise the right to convert the CCS1/CCS2 into ordinary shares, during the periods between 15-31 January and 15-31 July of each year ("the Conversion Period") with the first Conversion Period commencing on 15 January 2016 and the last Conversion Period commencing on 15 July 2023. If a CCS1/CCS2 holder exercises his Right to convert, any interest accrued ceases to be calculated and becomes due until the end of the conversion period during which the holder has exercised voluntary conversion, according to the provisions of Paragraph 10.B.(d) of Part IV/B/III and 11.B.(d) of Part IV/C/III of the prospectus.

The first Conversion Period for CCS1/CCS2 commenced on 15 January 2016 and ended on 29 January 2016. During all the conversion periods the Bank did not receive a Voluntary Conversion Application from any CCS1 /CCS2 holder.

In accordance with the terms and characteristics of CCS 1 and 2, the appropriate classification and measurement of CCS 1 and 2 are as a financial liability.

Tier 2 Capital

Non-Convertible Bonds 2018

On 1 September 2008, the Bank proceeded with the issue of the Bonds 2018 amounting to €10.000.000 that were classified as financial liabilities.

Interest on Bonds 2018 was payable in cash every three months, at the end of each interest period. Bonds 2018 bear interest at a floating rate equal to the 3-month Euribor rate applicable at the beginning of each interest period, plus 1,75%. Under the terms of issuance of the bond, if the bonds were not redeemed by the Bank after 1 September 2013, they would bear an additional interest of 1%. Consequently the interest rate applicable subsequent to 1 September 2013 was equal to the 3-month Euribor plus 2,75%.

Bonds 2018 were not secured and in the event of the Bank's liquidation their repayment follows in priority the claims of depositors and other creditors. They had, however, priority over shareholders and Capital Securities holders. Bonds 2018 were not listed on the Cyprus Stock Exchange.

Non-convertible bonds 2018 matured and redeemed on 31 August 2018.

35. SHARE CAPITAL

	The Group and the Bank			
	2018 €'000	**Number of shares (thousand)**	2017 €'000	Number of shares (thousand)
Authorised				
1.032 million shares €0,50 each	**516.000**	**1.032.000**	516.000	1.032.000
Issued share capital	**99.237**	**198.475**	99.237	198.475

During the year ended 31 December 2018 there was no movement to the Bank's issued or authorised share capital. At 31 December 2018, 198.474.712 fully paid shares were in issue, with a normal value of €0,50 each (2017: 198.474.712 shares with a nominal value of €0,50 each).

The Bank is currently under a regulatory dividend distribution prohibition and therefore the Board of Directors of the Bank does not propose the payment of a dividend for the year ended 31 December 2018 at the shareholders' Annual General Meeting. No dividend was paid or proposed for the year ended 31 December 2017.

There are no restrictions on the transfer of the Bank's ordinary shares, other than the provisions of the Business of Credit Institutions Law of Cyprus which require the approval of the Central Bank of Cyprus (CBC) prior to acquiring shares of the Bank in excess of certain thresholds and the requirements of the EU Market Abuse Regulation.

The Bank does not have any shares in issue which carry special control rights. For recent developments in the share capital refer to Note 52.

Reduction of share capital Reserve

The difference that emerged from the reduction of the nominal value of every ordinary share in 2013 (from €0,43 each to €0,01

NOTES TO THE FINANCIAL STATEMENTS
35. SHARE CAPITAL (CONTINUED)

each) was transferred from the share capital to a reserve under the name “reduction of share capital reserve” pursuant to the provisions of article 64(1)(e) of the Companies' Law (Chapter 113). There was no change in the balance of this reserve since then.

Share premium reserve

The difference between the issue price of share capital and its nominal value is recognised in the share premium reserve. During 2018 and 2017 there was no movement in the share premium reserve.

36. REVALUATION RESERVES

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Property revaluation reserve				
1 January	**37.298**	29.400	**34.543**	26.463
Surplus on revaluation of land and buildings	**-**	8.731	**-**	8.903
Deferred taxation on property revaluation	**73**	(236)	**69**	(226)
Transfer to revenue reserve due to excessdepreciation depreciation	**(419)**	(168)	**(419)**	(168)
Transfer to revenue reserve due to disposal of immovable property	**(396)**	(429)	**(396)**	(429)
	36.556	37.298	**33.797**	34.543
Revaluation reserve of available for sale securities				
1 January	**41.018**	8.109	**41.001**	8.139
Adjustment on initial application of IFRS 9 net of taxation	**1.987**	N/A	**2.054**	N/A
Restated balance at 1 January 2018	**43.005**	8.109	**43.055**	8.139
Net revaluation surplus of investments in equity and other securities and collective investment units at fair value through other comprehensive income	**337**	N/A	**337**	N/A
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income	**(6.195)**	N/A	**(6.270)**	N/A
Net revaluation surplus of investments in equity and other securities and collective investment units available for sale	**N/A**	509	**N/A**	571
Transfer to retained earnings reserve due to the disposal of investments in equity securities measured at fair value though other comprehensive income	**(110)**	N/A	**(110)**	N/A
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income reclassified to income statement on disposal	**(18.281)**	N/A	**(18.281)**	N/A
Revaluation of investment in debt securities available for sale	**N/A**	32.474	**N/A**	32.365
Amortisation of revaluation of reclassified debt securities available for sale	**N/A**	(74)	**N/A**	(74)
	18.756	41.018	**18.731**	41.001
Total revaluation reserves	**55.312**	78.316	**52.528**	75.544

Any surplus arising on the revaluation of land and buildings is credited to the property revaluation reserve that is included in equity. If, after a revaluation, the depreciation charge is increased, then an amount equal to the increase (net of deferred taxation), is transferred annually from the property revaluation reserve to revenue reserve. Upon disposal of revalued property, any relevant accumulated revaluation surplus which remains in the property revaluation reserve is also transferred to revenue reserve. The balance of the revaluation reserves is not available for distribution to shareholders.

NOTES TO THE FINANCIAL STATEMENTS

37. CONTINGENT LIABILITIES AND COMMITMENTS

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Contingent liabilities				
Acceptances and endorsements	**205**	155	**205**	155
Guarantees	**354.088**	292.066	**354.109**	292.087
	354.293	292.221	**354.314**	292.242
Commitments				
Undrawn formal standby facilities	**836.329**	525.083	**836.408**	525.162
Undisbursed loan amounts	**139.435**	132.351	**139.435**	132.351
Other commitments	**36.002**	8.613	**36.002**	8.613
	1.011.766	666.047	**1.011.845**	666.126
	1.366.059	958.268	**1.366.159**	958.368

Capital Commitments

At 31 December 2018, the Group's and the Bank's commitments for capital expenditure, not recognised in the statement of financial position, amounted to €8.876 thousand and €8.939 thousand respectively (Group and the Bank 31 December 2017: €7.199 thousand).

Future minimum lease payments

The total future minimum lease payments under non-cancellable operating leases are presented below:

	31 December 2018	31 December 2017
	€'000	€'000
Within one year	**616**	1.100
Between one and five years	**170**	590
After five years	**-**	12
	786	1.702

Contingent liabilities for pending litigations or complaints and/or claims

The Group is engaged in various legal proceedings and regulatory matters arising out of its normal business operations, where an obligation may be created for which an outflow of resources embodying economic benefits is possible. The existence of these obligations will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group.

Hence the effect of the outcome of these matters cannot be predicted with certainty but may impact the Group's financial results. The Group is of the opinion that there are adequate defences in place for a successful outcome, in the course of the relevant proceedings. It is not practicable to provide an aggregate estimate of potential liability for such legal proceedings to be disclosed as a class of contingent liabilities.

Consumer Protection Service

On 12 October 2017, the Consumer Protection Service (the CPS) of the Ministry of Energy Commerce and Industry has issued, following a complaint from certain borrowers, a decision in relation to certain terms of the Bank's standard housing loan agreements that were used in the period 2007-2008. The CPS took the view that these agreements contain certain unfair/ non-transparent terms and has invited the Bank to inform the CPS of any actions it intends to take in relation to its findings. Although the Bank does not share the views of the CPS and/or disputes the interpretation given by the CPS to the agreements, it has nevertheless discussed in good faith with the CPS and provided a list of certain actions that addressed certain of the CPS's concerns. Notwithstanding the above, it should be noted that the CPS has the right, pursuant to the provisions of the relevant law, to file an application to the competent court seeking a court order that will prevent the Bank from enforcing the terms that have been considered unfair against consumers. The Bank will dispute such an application.

38. DERIVATIVES

The Group uses the following derivative instruments:

- Foreign currency forwards: represent agreements for the purchase or sale of foreign currencies settled at a future date.

- Foreign currency swaps: represent agreements for the exchange of cash flows of different currencies.

- Options: represent contracts for future purchase or sale, at a predetermined value of a financial "product", offering the right, but not the obligation, to one of the two parties to request by the other party the fulfilment of the agreement during a certain period of time or on a specific date.

- Interest rate swaps: represent agreements where one stream of future interest payments is exchanged for another based on a predetermined notional amount and time periods.

At 31 December 2018		The Group and the Bank Fair value	
	Nominal value €'000	Other assets €'000	Other liabilities €'000
Foreign currency forwards	709	1	21
Foreign currency swaps	281.650	566	1.166
Interest rate swaps	1.195.000	-	6.794
	1.477.359	567	7.981

At 31 December 2017		The Group and the Bank Fair value	
	Nominal value €'000	Other assets €'000	Other liabilities €'000
Foreign currency forwards	58	1	-
Foreign currency swaps	469.811	-	4.745
Interest rate swaps	17.507	228	467
	487.376	229	5.212

As at 31 December 2018, interest rate swaps, of notional value €1.190 million, are used as hedging instruments (Note 21).

NOTES TO THE FINANCIAL STATEMENTS

39. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and available for use balances with Central Banks and placements with other banks, with original maturities of less than three months as follows:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Cash balances and non-obligatory balances with Central Banks	**4.248.396**	2.225.131	**4.248.394**	2.225.130
Placement with other banks with original maturity less than three months	**183.712**	249.940	**172.839**	239.972
Total cash and cash equivalents	**4.432.108**	2.475.071	**4.421.233**	2.465.102

Total cash and balances with Central Banks and Placements with other banks are presented below:

	The Group		The Bank	
	2018	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000
Cash balances and non-obligatory balances with Central Banks	**4.248.396**	2.225.131	**4.248.394**	2.225.130
Non available for use balances with Central Banks	**143.048**	68.623	**143.048**	68.623
Total Cash and Balances with Central Banks	**4.391.444**	2.293.754	**4.391.442**	2.293.753
Placement with other banks with original maturity less than three months	**183.712**	249.940	**172.838**	239.972
Other placements with other banks	**124.176**	98.236	**121.445**	96.300
Total Placements with other Banks	**307.888**	348.176	**294.283**	336.272

40. DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE BANK

According to the Cyprus Securities and Stock Exchange Regulations and in accordance with the requirements of the Directive DI190/2007/04 para. 4 of the Cyprus Securities and Exchange Commission, the Bank is required to disclose the percentage shareholdings in the Bank's share capital owned by Members of the Board of Directors, their spouses, or/and relatives by blood up to first degree and companies in which they control directly and indirectly at least 20% of the voting rights at 31 December 2018 and the respective percentages as at 17 April 2019.

	31 December 2018			17 April 2019		
	Direct participation	Indirect participation	Total	Direct participation	Indirect participation	Total
Youssef A. Nasr	-	-	-	-	-	-
Dr E. A. Polykarpou	-	-	-	-	-	-
M. S. Yannopoullos	-	-	-	-	-	-
I. A. Georgiadou	-	-	-	-	-	-
M. Pantelidou Neophytou	0,00370%	-	0,00370%	0,00302%	-	0,00302%
D. W. Bonanno	-	-	-	-	-	-
Ch. A. Hadjistavris	-	-	-	-	-	-
A. Christofides	-	0,00001%	0,00001%	-	0,00001%	0,00001%
A. C. Wynn	-	-	-	-	-	-
S. J. Albutt	-	-	-	-	-	-
D. Efstathiou	-	-	-	-	-	-
I. A. Matsis	-	0,00123%	0,00123%	-	0,00101%	0,00101%
L. Kramer	-	-	-	-	-	-

The Members of the Board of Directors as at 31 December 2018 and as at 17 April 2019 did not hold any stake in the Bank's issued loan capital (31 December 2017: nil).

41. RELATED PARTY TRANSACTIONS

Members of the Board of Directors and connected persons

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

	2018	2017
	€'000	€'000
Loans and advances	**407**	18
Collaterals	**396**	6
Deposits	**2.260**	1.953

Additionally, as at 31 December 2018, there were contingent liabilities and commitments in respect of Members of the Board of Directors and their connected persons in the form of documentary credits, guarantees and unused limits amounting to €67 thousand which did not exceed 1% of the Bank's net assets (2017: €60 thousand).

For the year ended 31 December 2018 interest income in relation to Members of the Board of Directors and their connected persons amounted to €1 thousand (31 December 2017: nil), while interest expense in respect of Members of the Board of Directors and their connected persons amounted to €9 thousand (31 December 2017: €13 thousand).

Emoluments and fees of Members of the Board of Directors

	2018	2017
	€'000	€'000
Emoluments and fees of Members of the Board of Directors:		
Emoluments and benefits in executive capacity	**958**	673
Employer's contributions for social insurance, etc	**29**	22
Retirement benefits	-	8
Total emoluments for Executive Directors	**987**	703
Fees	**1.084**	1.029

Other transactions with Members of the Bord of Directors and their connected persons

The sales of insurance policies for the year ended 31 December 2018 by the Group's subsidiary, Pancyprian Insurance Ltd, to Members of the Board and their connected persons as defined above, amounted to €9 thousand (31 December 2017: €10 thousand), while sales of insurance policies by the Group's subsidiary, Hellenic Alico Life Insurance Company amounted to €1,4 thousand (31 December 2017: €1 thousand).

For the year ended 31 December 2018 non interest income which relates to Members of the Board of Directors and their connected persons was nil (31 December 2017: nil).

Key Management personnel who are not Directors and their connected persons

Key Management personnel are those persons who have the authority and the responsibility for the planning, management and control of the Banks' operations, directly or indirectly. The Group, according to the provisions of IAS 24 considers as Key Management personnel the General Managers of the Bank who were not Directors, the members of the Asset and Liability Committee (ALCO) as well as management personnel who refer directly to the Chief Executive Officer.

Connected persons include spouses, minor children and companies in which the Key Management personnel who were not Directors hold, directly or indirectly, at least 20% of the voting rights at a general meeting.

	2018	2017
	€'000	€'000
Loans and advances	**1.012**	686
Collaterals	**840**	349
Deposits	**4.553**	3.311

NOTES TO THE FINANCIAL STATEMENTS
41. RELATED PARTY TRANSACTIONS (CONTINUED)

Emoluments of Key Management personnel of the Group
The emoluments of Key Management personnel who were not Directors were:

	2018 €'000	2017 €'000
Emoluments of Key Management personnel who were not Directors:		
Salaries and other short term benefits	**2.002**	2.141
Employer's contributions for social insurance, etc	**146**	133
Retirement benefits	**168**	157
Amounts paid on termination	**47**	-
	2.363	2.431

The number of Key Management personnel as at 31 December 2018 was 15 (2017: 13).

As at 31 December 2018, there were contingent liabilities and commitments to Key Management personnel who were not Directors and their connected persons amounting to €351 thousand (2017: €308 thousand).

Interest income in relation to Key Management personnel and their connected persons for the year ended 31 December 2018 amounted to €10 thousand (31 December 2017: €15 thousand), while interest expense in relation to Key Management personnel and their connected persons amounted to €36 thousand (31 December 2017: €33 thousand).

The sales of insurance policies for the year ended 31 December 2018 by the Group's subsidiary, Pancyprian Insurance Ltd, to Key Management personnel and their connected persons, as defined above, amounted to €12 thousand (31 December 2017: €12 thousand) while the sales of insurance policies by the Group's subsidiary, Hellenic Alico Life Insurance Company amounted to €25 thousand (31 December 2017: €24 thousand).

Shareholders with significant influence and their connected persons

Pursuant to the provisions of IAS 24, related parties are considered, among others, the Shareholders who have significant influence to the Bank or/and hold directly or indirectly more than twenty percent (20%) of the nominal value of the issued capital of the Bank.

Connected persons include the entities controlled by Shareholders with significant influence as they are defined above.

	2018 €'000	2017 €'000
Loans and advances	**1**	3
Deposits	**28.311**	26.181

On 31 December 2018 there were collaterals held for provision of guarantees amounting to €398 thousand (31 December 2017: €398 thousand).

On 31 December 2018, there were contingent liabilities and commitments in relation to Shareholders with significant influence and connected persons in the form of documentary credits, guarantees and unused limits amounting to €715 thousand (2017: €712 thousand).

Interest income in relation to Shareholders and connected persons for the year ended 31 December 2018 amounted to nil (31 December 2017: nil) while the corresponding interest expense was €4 thousand (31 December 2017: €4 thousand).

Other transactions with Shareholders with significant influence and their connected persons

During the year ended 31 December 2018, there were no purchases of goods and services by Shareholders with significant influence and their connected persons as defined above (31 December 2017: nil). In addition, the sales of insurance policies by the Group's subsidiary, Pancyprian Insurance Ltd, to Shareholders with significant influence and their connected persons as defined above, amounted to €139 thousand (31 December 2017: €138 thousand).

For the year ended 31 December 2018 non-interest income amounting to €125 thousand (31 December 2017: €158 thousand) was received which relates to Shareholders with significant influence and their connected persons.

All transactions with Members of the Board of Directors, Key Management personnel, Shareholders with significant influence and their connected persons are at an arm's length basis. Regarding the Key Management personnel, facilities have been granted based on current terms as those applicable to the rest of the Group's personnel.

NOTES TO THE FINANCIAL STATEMENTS

42. SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

According to the Cyprus Securities and Stock Exchange Regulations and pursuant to the requirements of the Directive DI190/2007/04 para. 4 of the Cyprus Securities and Exchange Commission, the following shareholders owned five (5%) percent or more of the nominal value of the Bank's issued share capital as at 31 December 2018:

Third Point Hellenic Recovery Fund LP	26,20%
Wargaming Group Limited	24,92%
Demetra Investment Public Ltd	10,05%
European Bank for Reconstruction and Development	5,37%

On 31 December 2018 shareholders holding more than 5% of the share capital, had in their possession CCS1 amounting to €23 thousand (31 December 2017: €23 thousand) and CCS2 amounting to €8 million (31 December 2017: €8 million).

As at 17 April 2019, the following shareholders held at least five (5%) percentage of the nominal value of the issued share capital:

Wargaming Group Limited[1]	20,61%
Demetra Investment Public Ltd[2]	18,42%
Poppy SARL	17,30%
Third Point Hellenic Recovery Fund LP	12,59%
7Q Invest Ltd Multi Opportunities[3]	8,90%

Note 1: Includes direct holding in the Bank of the Provident Fund Executive Directors of Wargaming and the Provident Fund Senior Management Personnel Wargaming.

Note 2: It is noted that Logicom Services Ltd, which has a direct holding of 0,71% in the Bank, also has a 29,62% holding in Demetra Investment Public Ltd whose holding in the Bank is specified in the above table.

Note 3: It is noted that 7Q Invest Ltd I Multi Opportunities also holds 5,74% of the issued share capital of Demetra Investment Public Ltd, which holds 18,42% of the issued share capital of the Bank (as per table above). Furthermore, 7Q Financial Services Ltd, the manager of the 7Q Invest Ltd I Multi Opportunities fund, also manages other funds with a direct holding of 0,1% of the issued share capital of the Bank.

As at 17 April 2019, Shareholders holding more than 5% of the share capital, had in their possession CCS1 amounting to €23,0 thousand and CCS2 amounting to €8 million.

43. FAIR VALUE MEASUREMENT

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 Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market, when available, for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the main factors that market participants would take into account in pricing a transaction.

Fair value of financial instruments

The table below presents the analysis of the Group's financial instruments measured at fair value on the basis of the three-level hierarchy by reference to the source of data used to derive the fair values. The levels of hierarchy of fair value are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Data other than quoted prices included within level 1 that is observable for the asset or liability, either directly or indirectly.
- Level 3: Import data for the asset or liability that is not based on observable market data (non- observable import data).

For assets and liabilities recognised at fair value in the Consolidated Financial Statements, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS
43. FAIR VALUE MEASUREMENT (CONTINUED)

31 December 2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives:				
Foreign currency forwards	-	1	-	**1**
Currency swaps	-	566	-	**566**
	-	567	-	**567**
Other financial assets at fair value through profit or loss				
Equity and other securities and collective investment units	23.141	-	4.527	**27.668**
	23.141	-	4.527	**27.668**
Investments at fair value through other comprehensive income				
Debt securities:				
Government	215.366	-	-	**215.366**
Banks	131.411	-	-	**131.411**
Other issuers	239.106	7.067	-	**246.173**
Equity and other securities and collective investment units	1.387	-	5.583	**6.970**
	587.270	7.067	5.583	**599.920**
Total	**610.411**	**7.634**	**10.110**	**628.155**

31 December 2018	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial liabilities				
Derivatives:				
Foreign currency forwards	-	20	-	**20**
Interest rate swaps	-	6.794	-	**6.794**
Currency swaps	-	1.166	-	**1.166**
Total	**-**	**7.980**	**-**	**7.980**

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives:				
Foreign currency forwards	-	1	-	**1**
Interest rate swaps	-	228	-	**228**
	-	229	-	**229**
Other financial assets at fair value through profit or loss				
Debt securities:				
Equity and other securities and collective investment units	450	-	-	**450**
	450	-	-	**450**
Investments available for sale				
Debt securities:				
Government	390.195	-	-	**390.195**
Banks	40.015	-	-	**40.015**
Other issuers	237.157	11.876	-	**249.033**
Equity and other securities and collective investment units	21.749	-	7.838	**29.587**
	689.116	11.876	7.838	**708.830**
Total	**689.566**	**12.105**	**7.838**	**709.509**

NOTES TO THE FINANCIAL STATEMENTS
43. FAIR VALUE MEASUREMENT (CONTINUED)

2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	**Total €'000**
Financial liabilities				
Derivatives:				
Interest rate swaps	-	467	-	**467**
Foreign currency swaps	-	4.745	-	**4.745**
Total	**-**	**5.212**	**-**	**5.212**

The tables below present the movement of fair value of financial instruments categorised at level 3 hierarchy:

	Investments at fair value through other comprehensive income €'000	Other financial assets at fair value through profit or loss €'000	**Total €'000**
1 January 2018	5.307	2.531	**7.838**
Reclassified	-	-	-
Gains recognised in consolidated income statement in the categories "Net income from fees, commissions, net gains on disposal and revaluation of foreign currencies and financial instruments and other income"	571	623	**1.194**
Additions	2	1.373	**1.375**
Disposals	(297)	-	**(297)**
31 December 2018	5.583	4.527	**10.110**

	Investments available for sale			
	Debt securities €'000	Equity securities €'000	Shares held for sale €'000	Total €'000
1 January 2017	-	7.228	-	7.228
Gains recognised in consolidated income statement in the category "Net gains on disposal and revaluation of foreign currencies and financial instruments"	-	610	-	610
31 December 2017	-	7.838	-	7.838

During the years 2018 and 2017 there were no transfers between Level 1 and Level 2.

Valuation techniques of Level 2 investments in debt securities and derivatives measured at fair value throught other comprehensive income and fair value throught profit or loss

For the fair value of the investments in debt securities categorised under Level 2 hierarchy, the Bank utilises the outstanding Cyprus Government European Medium Term Notes (EMTNs) and extrapolates the spread over the German sovereign curve at the valuation date to construct the yield curve used to fairly value these level 2 debt securities.

Derivative financial instruments are valued using a valuation technique with observable market data, and these are mainly interest rate swaps, foreign exchange swaps, foreign exchange options, forward foreign exchange rate contracts and interest rate collars. The valuation techniques most frequently used include forward pricing and swap models, using present value calculations. The models use various inputs including foreign exchange spot and forward rates and interest rate curves. Furthermore it is essential to note that the vast majority of the Bank's derivative positions are performed with counterparties that the Bank has ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements, exchanging cash collateral on a daily basis.

NOTES TO THE FINANCIAL STATEMENTS
43. FAIR VALUE MEASUREMENT (CONTINUED)

Valuation techniques of Level 3 investments in equity and other securities for financial assets at fair value through profit or loss

Equity and other secuirities at fair value through profit or loss include the Bank's stakeholding of Series C Visa Inc. shares convertible into Class A Common Stock which are valued based on the stock price of the underlying shares on each reporting date. Due to the conversion of the shares taking place on the twelfth anniversary of the closing date of the agreement (21 June 2016) after settling any unresolved and outstanding cover claims, it was considered appropriate to apply a haircut of 50% on the observable value of the shares. The significant unobservable input used above is considered to be the haircut on the calculated value of the shares. A change in the significant unobservable input by 10% would result in a change in the value of the equity and other securities by €453 thousand.

Valuation techniques of Level 3 investments in equity and other securities for financial assets at fair value through other comprehensive income

Equity and other securities categorised under Level 3 hierarchy include non-listed investments. For these investments, the Group uses models which are not based on observable market data and takes into account, amongst others, the net positions of the entities in which the investment has been made, as well as estimates of the Group's Management to reflect uncertainties in fair values resulting from the lack of data and significant adverse changes in technology, market, economic or legal environment in which the entity operates. The significant unobservable input used above is considered to be the net asset position of the entities. A change in the significant unobservable input by 10% would result in a change in the value of the equity and other securities by €558 thousand.

Fair value of debt securities not measured at fair value but for which fair value is disclosed in the fair value hierarchy

At 31 December 2018 the fair value of investments in debt securities classified in the category "Investments at amortised cost" and which are not measured at fair value amounted to €3.994.773 thousand and in three-level hierarchy an amount of fair value of €279.825 thousand (carrying amount:
€269.707 thousand) would be classified as level 1 and an amount of fair value of €3.714.948 thousand (carrying amount: €3.663.771 thousand) would be classified as level 2.

For the calculation of the fair value of investments in debt securities classified in the category "Investments at amortised cost", which are not measured at fair value and would be classified as level 1 the Group uses quoted prices in active markets. For the calculation of the fair value of investments in debt securities classified in the category "Investments at amortised cost", which are not measured at fair value and would be classified as level 2 the Group utilises the outstanding Cyprus Government European Medium Term Notes (EMTNs) and extrapolates the spread over the German sovereign curve at the valuation date to construct the yield curve used to fairly value these level 2 debt securities.

At 31 December 2017 the fair value of investments in debt securities classified in the category "Assets held to maturity" and which are not measured at fair value amounted to €157.840 thousand (carrying amount: €146.399 thousand) and in the three level hierarchy would be classified as level 1. Also the fair value of investments in debt securities classified in the category "Loans and receivables" and which are not measured at fair value, as at 31 December 2017 amounted to €220.101 thousand (carrying amount: €193.260 thousand) and in the three level hierarchy would be classified as level 2.

Loans and advances to customers

The fair value of loans and advances to customers is based on the present value of expected future cash flows.

The level of subjectivity and degree of management judgment required is significant in these discounted cash flow models given that management is required to exercise judgment in the selection and application of parameters and assumptions where some or all of the parameter inputs are less observable. Future cash flows have been based on the future expected loss rate per loan category, taking into account expectations in the credit quality of the borrowers. The discount rate includes components that capture: the funding cost, cost of capital and an adjustment for operational costs.

The fair value of loans and advances to customers not measured at fair value at 31 December 2018 amounted to €6.184 million (2017: €2.654 million) for the Group and would have been classified at level 3.

Indemnification assets

As at 31 December 2018, the fair value of the indemnification assets was determined based on the Income Approach in line with the provisions of IFRS 13.

Asset Protection Scheme:

The fair value was estimated as the sum of:

(a) The Present Value of claims to be made by the Bank to the Republic of Cyprus in the event of APS Losses. The claims and timing of these claims have been estimated depending on the initial performance status of each loan. All calculations are made on an asset by asset basis. The evolution of the present value of the claims is aligned with the evolution of the fair value of the loans covered by the APS.

(b) The Present Value of fees payable from the Bank to the Republic of Cyprus (admission fee and guarantee fees as described in Note 49.2.).

The present values of the above two elements have been discounted at the equivalent prevailing market interest rates as of 31 December 2018 of sovereign exposures with similar maturity.

The fair value of the APS indemnification asset not measured at fair value at 31 December 2018 amounted to €63.816 thousand and would have been classified at level 3.

Off-balance sheet exposures:

The fair value was estimated on:

(a) The recovery as a result of the estimated losses arising from the off-balance sheet exposures without an on-balance sheet amount as at 31 December 2018.

(b) The recovery as a result of the estimated losses arising from the off-balance exposures of credit cards with an on balance sheet amount as at 31 December 2018.

The recovery as a result of the estimated losses of the above two elements have been discounted at the equivalent prevailing market interest rates as of 31 December 2018 of sovereign exposures with similar maturity.

Other key inputs involved in the fair value measurement of the indemnification assets relating to APS and off-balance sheet exposures include the estimates and parameters involved in the measurement of ECL of the underlying loans and off-balance sheet exposures. The sensitivity of this is presented in Note 5.

The fair value of the off balance sheet exposures not measured at fair value at 31 December 2018 amounted to €6.739 thousand and would have been classified at level 3.

For the remaining financial assets and financial liabilities not described above the fair value approximate to their carrying amounts.

44. SEGMENTAL ANALYSIS

For management purposes, the Group is organised into two operating segments based on the provision of services, as follows:

- Banking and financial services segment - principally providing banking and financial services, including financing and investment services, custodian and factoring services as well as management and disposal of properties. Banking and financial services segment also includes the share of results of associate company.
- Insurance services segment - principally providing life and general insurance services.

The table below presents income, expenses, impairment losses and provisions to cover credit risk, profit/(loss) before share of results of associate company, share of results of associate company, negative goodwill and taxation and information on assets, liabilities, equity-accounting investment in associate company and capital expenditure regarding the Group's operating segments.

NOTES TO THE FINANCIAL STATEMENTS
44. SEGMENTAL ANALYSIS (CONTINUED)

	Banking & Financial services		Insurance Services		Intersegment transactions/ balances		Total	
	2018 €'000	2017 €'000	**2018 €'000**	2017 €'000	**2018 €'000**	2017 €'000	**2018 €'000**	2017 €'000
Turnover	**340.161**	262.151	**16.900**	17.722	**(4.619)**	(5.844)	**352.442**	274.029
Of which: Third parties revenue	**335.542**	256.307	**16.900**	17.722	**-**	-	**352.442**	274.029
Of which: Inter-segment revenue	**4.619**	5.844	**-**	-	**(4.619)**	(5.844)	**-**	-
Net interest income	**184.082**	131.000	**99**	178	**-**	-	**184.181**	131.178
Net fees and commission income/(expenses)	**51.952**	48.041	**(3.177)**	(2.758)	**(11)**	5	**48.764**	45.288
Net gains/(losses) on disposal and revaluation of foreign currencies and financial instruments	**27.319**	12.462	**(224)**	(49)	**-**	-	**27.095**	12.413
Other income/(expenses)	**16.178**	33.479	**15.217**	15.569	**(2.262)**	(3.464)	**29.133**	45.584
Staff costs	**(82.537)**	(81.699)	**(5.023)**	(5.225)	**-**	-	**(87.560)**	(86.924)
Depreciation and amortisation	**(10.972)**	(7.866)	**(230)**	(250)	**-**	-	**(11.202)**	(8.116)
Administrative and other expenses	**(100.623)**	(100.830)	**(3.250)**	(5.140)	**141**	130	**(103.732)**	(105.840)
Profit/(loss) from ordinary operations before impairment losses and provisions to cover credit risk	**85.399**	34.587	**3.412**	2.325	**(2.132)**	(3.329)	**86.679**	33.583
Impairment losses and provisions to cover credit risk	**(67.386)**	(82.910)	**53**	-	**94**	-	**(67.239)**	(82.910)
Profit/(loss) before share of results of associate company and negative goodwill	**18.013**	(48.323)	**3.465**	2.325	**(2.038)**	(3.329)	**19.440**	(49.327)
Share of results of associate company net of taxation	**2.171**	789	**-**	-	**-**	-	**2.171**	789
Negative goodwill	**297.866**	-	**-**	-	**-**	-	**297.866**	-
Profit/(loss) before taxation	**318.050**	(47.534)	**3.465**	2.325	**(2.038)**	(3.329)	**319.477**	(48.538)
Taxation	**1.285**	3.350	**(709)**	143	**-**	-	**576**	3.493
Profit/(loss) after taxation	**319.335**	(44.184)	**2.756**	2.468	**(2.038)**	(3.329)	**320.053**	(45.045)
Total assets	**16.045.251**	6.766.825	**92.373**	91.483	**(11.438)**	(11.671)	**16.126.186**	6.846.637
Total liabilities	**15.253.721**	6.237.226	**58.888**	59.100	**(10.970)**	(11.985)	**15.301.639**	6.284.341
Equity-accounting investment in associate company	**8.997**	7.600	**-**	-	**-**	-	**8.997**	7.600
Capital expenditure on property, plant & equipment and computer software	**11.412**	17.113	**203**	177	**-**	-	**11.615**	17.290

NOTES TO THE FINANCIAL STATEMENTS
45. CATEGORISATION OF FINANCIAL INSTRUMENTS

The Group

31 December 2018	Carrying amount €'000	Securities classified at fair value through profit or loss €'000	Securities at amortised cost €'000	Amortised cost €'000	Securities classified at fair value through other comprehensive income €'000	Other amortised cost €'000
Assets						
Cash and balances with Central Banks	4.391.444	-	-	4.391.444	-	-
Placements with other banks	307.888	-	-	307.888	-	-
Loans and advances to customers	6.283.438	-	-	6.283.438	-	-
Debt securities	4.526.428	-	3.933.478	-	592.950	-
Equity and other securities and collective investment units	34.638	27.668	-	-	6.970	-
Derivatives	567	567	-	-	-	-
Indemnification assets	71.003	-	-	71.003	-	-
	15.615.406	28.235	3.933.478	11.053.773	599.920	-
Liabilities						
Deposits by banks	216.199	-	-	-	-	216.199
Customer deposits and other customer accounts	14.709.168	-	-	-	-	14.709.168
Derivatives	7.981	7.981	-	-	-	-
Loan capital	129.667	-	-	-	-	129.667
	15.063.015	7.981	-	-	-	15.055.034

31 December 2017	Carrying amount €'000	Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortised cost €'000
Assets						
Cash and balances with Central Banks	2.293.754	-	-	2.293.754	-	-
Placements with other banks	348.176	-	-	348.176	-	-
Loans and advances to customers	2.766.738	-	-	2.766.738	-	-
Debt securities	1.018.902	-	146.399	193.260	679.243	-
Equity and other securities and collective investment units	30.037	450	-	-	29.587	-
Derivatives	229	229	-	-	-	-
	6.457.836	679	146.399	5.601.928	708.830	-
Liabilities						
Deposits by banks	176.355	-	-	-	-	176.355
Customer deposits and other customer accounts	5.808.125	-	-	-	-	5.808.125
Derivatives	5.212	5.212	-	-	-	-
Loan capital	139.667	-	-	-	-	139.667
	6.129.359	5.212	-	-	-	6.124.147

NOTES TO THE FINANCIAL STATEMENTS
45. CATEGORISATION OF FINANCIAL INSTRUMENTS (CONTINUED)

The Bank

31 December 2018	Carrying amount €'000	Securities classified at fair value through profit or loss €'000	Securities at amortised cost €'000	Amortised cost €'000	Securities classified at fair value through other comprehensive income €'000	Other amortised cost €'000
Assets						
Cash and balances with Central Banks	4.391.442	-	-	4.391.442	-	-
Placements with other banks	294.283	-	-	294.283	-	-
Loans and advances to customers	6.283.438	-	-	6.283.438	-	-
Debt securities	4.525.629	-	3.933.478	-	592.151	-
Equity securities	11.497	4.527	-	-	6.970	-
Derivatives	567	567	-	-	-	-
Indemnification assets	71.003	-	-	71.003	-	-
	15.577.859	5.094	3.933.478	11.040.166	599.121	-
Liabilities						
Deposits by banks	216.199	-	-	-	-	216.199
Customer deposits and other customer accounts	14.709.324	-	-	-	-	14.709.324
Derivatives	7.981	7.981	-	-	-	-
Loan capital	129.667	-	-	-	-	129.667
	15.063.171	7.981	-	-	-	15.055.190

31 December 2017	Carrying amount €'000	Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortised cost €'000
Assets						
Cash and balances with Central Banks	2.293.753	-	-	2.293.753	-	-
Placements with other banks	336.272	-	-	336.272	-	-
Loans and advances to customers	2.766.738	-	-	2.766.738	-	-
Debt securities	1.018.090	-	146.399	193.260	678.431	-
Equity securities	9.231	450	-	-	8.781	-
Derivatives	229	229	-	-	-	-
	6.424.313	679	146.399	5.590.023	687.212	-
Liabilities						
Deposits by banks	176.355	-	-	-	-	176.355
Customer deposits and other customer accounts	5.808.125	-	-	-	-	5.808.125
Derivatives	5.212	5.212	-	-	-	-
Loan capit	139.667	-	-	-	-	139.667
	6.129.359	5.212	-	-	-	6.124.147

NOTES TO THE FINANCIAL STATEMENTS

46. ECONOMIC ENVIRONMENT

Economic Environment and Group operations in Cyprus
Cyprus has achieved an impressive turnaround following the 2013 economic crisis as the recovery continued strengthening for sixteen consecutive quarters. The broad-based economic recovery gained considerable momentum in 2017, with real GDP increasing by 4,5%, accompanied by an additional 4,8% increase in 2016. Real GDP in Cyprus increased by 3,9% year-on-year in 2018.

The economy's robust performance can be attributed to private consumption and strong gross fixed capital formation, particularly for large construction and infrastructure projects, as well as to a lesser extent to public consumption. During 2018, private consumption grew an annual 3,7%. Over the same period, public consumption grew an annual 4,3% while investment in construction increased an annual 19,5%. Private consumption benefitted from continued expanding employment across all sectors (which led to a market decline in unemployment, including long-term unemployment) and rising compensation per employee. Private consumption was also supported by the flourishing tourism sector with positive spillover effects in other sectors of the economy.

From a sectoral point of view, growth in 2018 was mainly attributed to the sectors: Hotels and Restaurants, Retail and Wholesale Trade, Construction, Manufacturing, Professional, Scientific and Technical Activities and Administrative and Support Service Activities. Negative growth rate was recorded by the sector Financial and Insurance Activities. For the period of January – December 2018 revenue from tourism is estimated at €2,7 billion compared to €2,6 billion in the corresponding period of 2017, recording an increase of 2,7%. For 2018, tourist arrivals amounted to 3,9 million compared to 3,7 million in 2017, recording an increase of 7,8% but also exceeding the arrivals that have been previously recorded in Cyprus in one year.

The course of the steady recovery path is reflected in the labor market, which tends to follow the recovery with a time lag. The gradual de-escalation of the unemployment rate in Cyprus is mainly due to the increased employment rate of the last year. In 2017, the unemployment rate stood at 11,3% recording a decrease from 13% in the previous year. During 2018, the unemployment rate declined further to 8,4% of the labor force, recording a decrease compared to the same period of the previous year (10,1%). For the period January – December 2018, the inflation increased by 0,8% compared to the same period last year.

Public finances have been consolidated to a large extent to secure the sustainability of public debt. The fiscal balance recorded a surplus of €344 million (1,8% of GDP) for 2017 compared with a surplus of €59 million (0,3% of GDP) in the corresponding period in 2016. The preliminary General Government fiscal results for 2018, include the fiscal burden of €1,7 billion, that was the result of the sale of the ex-CCB to the Bank, and indicate a deficit of €1,1 billion (-5,1% of GDP) for 2018, as compared to a surplus of €344 million for 2017 (1,8% of GDP). Excluding the fiscal burden of ex-CCB, the fiscal balance would register a surplus of €611 million (+2,9% of GDP).

The Cypriot banking sector downsized significantly during 2018 as a result of the Bank's acquisition of certain assets and liabilities of former ex-CCB, the carve out of former ex-CCB's non-performing portfolio and the recent sales of loan portfolios by the Bank and Bank of Cyprus. At the same time, the banking regulatory and supervisory framework have been significantly strengthened. Banks are making progress in restructuring their non performing loan portfolios. In November 2018, problem loans have been reduced by 60% to €11 billion from a peak of €27 billion, a €16 billion decrease, equivalent to around 80% of the country's GDP.

The housing market continued its adjustment during the third quarter of 2018 bringing the cumulative fall in prices since mid-2008 to approximately 30% (Central Bank of Cyprus's Residential Property Price Index (PPI)). In the third quarter of 2018, the PPI recorded a positive growth rate of 1,6%. According to data from the Department of Land and Surveys, property sales recorded a new increase during 2018. Specifically, sales contracts submitted increased to 9.242 versus 8.734 in the previous year, an annual increase of 6%.

The economic recovery along with the improved domestic financial conditions have created and maintained an environment of improved confidence in the Cypriot banking industry. International credit rating agencies have recently provided higher credit ratings for Cyprus and the country's largest domestic banks. In September 2018, Standard and Poor's upgraded Cyprus' long-term credit rating "BBB-", placing the economy on an investment grade after six years. Subsequently, in October 2018, Fitch upgraded the rating for the Cyprus sovereign to "BBB-" from "BB+". In July 2018, Moody's Ratings upgraded the rating for Cyprus sovereign to "Ba2" from "Ba3", two notches below investment grade. Taking advantage of the stable market backdrop and the recent rating upgrades, in February 2019, the Republic of Cyprus tapped the international capital markets, with an issue of a fifteen-year bond of €1 billion at a yield of 2,75%.

NOTES TO THE FINANCIAL STATEMENTS

46. ECONOMIC ENVIRONMENT (CONTINUED)

Cyprus' macroeconomic outlook is positive and is accompanied by a significant increase in real gross domestic product during 2018, robust employment growth and further improvement in key domestic indicators. Growth is expected to be supported by private consumption and investment and by an improving and robust labour market.

Despite the important steps taken towards restoring the positive economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high level of NPEs, high unemployment and the high private and public debt, which are however on a steady declining trend. The high level of NPEs, continue to pose significant risks to the stability of the domestic banking system and to the outlook for the economy.

From an exogenous perspective, the economic outlook may be negatively influenced due to the uncertainty surrounding the developments in Italy, a slower than expected growth in Europe, the uncertainty effects of Brexit and a weaker pound, including economic developments in Russia and fluctuations of the ruble against the euro. Also, increased geopolitical tensions in the Middle East and Eastern Mediterranean, could trigger adverse spillovers to economic confidence, tourism and consequently to the aggregate economic activity. At the same time, geopolitical tensions in neighbouring countries render Cyprus a safer tourist destination and could therefore counterbalance, to a significant extent, any potential reduction in tourist traffic from the UK. Additionally, developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored to assess potential prospects and risks as they are evolving.

Cyprus' macroeconomic outlook is positive, with GDP expected to continue growing. According to the baseline macroeconomic scenario, growth is expected to be 3,5% in 2019 and 3,2% in 2020. The pick-up in domestic demand is expected to be reflected in improved labor market conditions with unemployment decreasing to 7,2% in 2019. Inflation in 2019 is expected to remain at relatively low levels, at around 1,2%.

Consequences of the recent developments

The Cyprus banking sector has gone through a reformation phase and is now in a strengthened capital and liquidity position. Its size has been reduced to a moderate 2,8 times the GDP or about the EU average. Foreign exposures have been eliminated and domestic operations form the main focus. While decisive steps were taken and swift progress has been achieved throughout the banking sector, the high share of NPEs continues to impact banks' balance sheets. The Bank has managed to navigate successfully through the banking crisis. It has retained throughout the crisis its reputation for stability and confidence and is now focusing on strengthening and improving its market position within the Group's strategy of reorganizing and reforming its business model.

On 3 September 2018 the Bank announced the completion of the acquisition (Acquisition) of certain assets and liabilities of the Cyprus Cooperative Bank Ltd (CCB) with effect from 1 September 2018. The Acquisition is a strategic transaction intended to act as a catalyst for the sustainable profitability of the Bank, further enhancing its market position as a primary bank for its clients, while at the same time enhancing the stability of the financial system in Cyprus.

The main pillars of the strategy is the reduction of NPEs, the expansion of new lending, thus increasing the Bank's market share, and the increase of its revenues through other banking activities. Through the creation of the first debt servicing platform in the Cypriot market, the Bank is continuing the efforts for effectively resolving its NPEs in an accelerated way and with higher recoveries, leveraging on the knowhow, proven expertise and technical experience of APS Holding. Furthermore, the debt servicing platform allows the Bank to better allocate its resources on managing and growing the performing loan portfolio, by using its excess liquidity to the benefit of the market, as well as on continuing its digital transformation journey, the optimisation of corporate governance and the adaptation to the expanding compliance framework.

The Bank maintains sufficient liquidity which allows the exploitation of opportunities, maintaining its focus on organic growth. The focus of new loans will be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and commercial activities, education, health, manufacturing, tourism and shipping by targeting specific customer profiles. At the same time, loans to the retail sector will be geared toward mortgages, small loans to new customers and supporting current customers who are deemed viable.

47. BANK RECOVERY AND RESOLUTION DIRECTIVE (BRRD)

The Bank within the framework of the Bank Recovery and Resolution Directive (BRRD) is subject to the minimum requirement for own funds and eligible liabilities (MREL). The framework, which entered into effect on 1 January 2016, provides authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. This is achieved by requiring banks to have a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of a bank failure (that is: "bailed- in"). Such liabilities, in combination with equity, are known as MREL.

The Bank's MREL requirement, as well as the time framework for compliance, have not been finalised. Nevertheless, the Bank is closely monitoring the developments on this front.

The BRRD, also provides for the Member States to be prepared to handle situations involving both systemic crises and failures of individual institutions, with significant funding implications for credit institutions, which include the establishment of pre-funded resolution funds of 1% of deposits covered under the EU Deposit Guarantee Schemes Directive (DGSD) 2014/49 to be built up by 31 December 2024. Further details are presented in Note 48.

48. DEPOSIT INSURANCE SCHEMES

European Deposit Insurance Scheme (EDIS)

As of 1 January 2016, the European Union within the Banking Union framework has put forward a third pillar, a deposit insurance scheme (EDIS-European Deposit Insurance Scheme) which will gradually fully finance the protection of bank deposits supported by a close cooperation with national Depositors' Guarantee Scheme (DGS). The EDIS proposal builds on the system of national deposit guarantee schemes (DGS) regulated by Directive 2014/49/EU. The first pillar of the Banking Union consists of a common framework for supervision of banks implemented by the Single Supervisory Mechanism (SSM); the second pillar consists of a common framework for bank resolution implemented by the Single Resolution Mechanism (SRM).

EDIS is established in three specified stages:

- The first stage would be a re-insurance scheme and would apply for 3 years until 2020. In this stage, a National Guarantee Scheme will have access to EDIS funds only after exhausting its own resources. EDIS funds will provide extra funds only up to a certain level. In order to limit moral hazard and avoid "first-mover advantages", a DGS can only benefit from EDIS in this stage if it has met its requirements and filled its national fund to the required level, and only if those funds have been fully depleted.
- The second stage would be a co-insurance scheme and would apply for 4 years until 2024. For this phase, a national scheme would not have to be exhausted before accessing EDIS. EDIS will contribute from first euro of loss and would absorb a progressively larger share of any losses over the 4-year period in the event of a pay-out or resolution procedure. Access to EDIS would continue to be dependent on compliance by national DGS with the required funding levels.
- In the final stage, EDIS would fully insure deposits and would cover all liquidity needs and losses in the event of a pay-out or resolution procedure.

The SRM provides that the Single Resolution Fund (SRF) will be built up over a period of 8 years with "ex- ante" contributions from the banking industry.

The contribution of the Bank to the SRF for 2018 amounted to € 2 million and was paid in June 2018 and was netted off with the Special Levy for 2018. Special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held on 31 December, 31 March, 30 June and 30 September.

National Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS)

The Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS) was established in Cyprus as a separate legal entity and has been operating since 2000 under the relevant legal framework. For the purpose of the Scheme a Committee was established, consisting representatives from the Ministry of Finance and the Central Bank of Cyprus. The funds that are under the administration of the Committee are the Deposit Guarantee Fund for Banks, the Deposit Guarantee Fund for Cooperative Credit Institutions and the Resolution Fund of Credit and Other Institutions.

The purpose of the DGS is twofold: on the one hand it is to compensate the depositors of covered institutions which pay contributions, in the event that a credit institution is unable to repay its deposits, up to the guaranteed amount of €100.000 (subject to certain other circumstances); on the other hand, it is the funding of the implementation of resolution measures.

The EU system of DGSs has been strengthened in recent years. Under this new funding model, member banks pay a levy every year into the national DGS fund, and that money remains available (the "available financial means") in case the DGS needs it to protect depositors if a bank fails. A target is set through the Deposit Guarantee Schemes Directive (DGSD) whereby each Member State is required to raise available financial means into their DGS funds equal to at least 0,8 % of the amount of the covered deposits of its members by 3 July 2024 (subject to extensions). The contribution amount to be paid by each credit institution is calculated by the DGS taking into account its covered deposits and its risk level. The contribution must be paid within 21 business days from the date on which the institution is notified in writing by the Committee to pay the contribution.

NOTES TO THE FINANCIAL STATEMENTS
48. DEPOSIT INSURANCE SCHEMES (CONTINUED)

As at 31 December 2017 the amount of deposits protected by the Deposit Guarantee Fund for Banks was €16.803 million and its available financial means were €65,6 million, while the corresponding amounts for CCIs were €9.404 million and €22,7 million (source:https://www.eba.europa.eu/regulation-and- policy/recovery-and-resolution/deposit-guarantee- schemes-data). Following the Acquisition and in accordance with the BTA (Business Transfer Agreement), CCB had to pay to the Bank an amount of 0,4% of the secured deposits (included in the perimeter as at the Completion date) minus an amount of €22,7 million already being deposited to the Deposit Guarantee Fund for CCIs, which will be transferred to the Deposit Guarantee Fund for Banks by the second anniversary from the date of signing the BTA (by 25 June 2020). As a result, a net receivable amount of €6,5 million from CCB was recognised as at 30 September 2018 which was settled by the year end 2018. A respective liability has not been recognised for any further contributions to the Fund, since no official notice was communicated by the Committee (no obligating event has arisen as per IAS 37).

If the DGS does not have sufficient funds to cover the amount required to compensate the relevant deposits, then the DGS proceeds to find alternative financing means to do so as follows:
- The DGS may require the members of the DGS to provide additional contributions.
- From fines imposed on DGS members if the latter do not comply with the Law and relevant Regulations.
- By obtaining loans from third parties or other equivalent deposit guarantee schemes within the EU.
- By liquidating assets and investments.

49. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES

49.1. Business Transfer Agreement (BTA)

On 25 June 2018, the Bank signed a business transfer agreement (BTA) for the acquisition of a business from Cyprus Cooperative Bank (CCB) (the "Acquisition"). On 3 September 2018, the Bank announced the completion of the Acquisition (Completion), with effect from 1 September 2018 establishing the Bank as a leading retail and small and medium-sized enterprises bank in Cyprus.

The BTA entailed the acquisition of substantially all the performing business of CCB, including the related business of lending, deposit taking and the provision of other banking services, to the extent comprised of the acquired assets (the "Assets") and the assumed liabilities (the "Assumed Liabilities"), as carried on by CCB (the "Business"). The Assets comprised a portfolio of primarily performing loans, Cyprus Government Bonds, cash and other current assets, while the Assumed Liabilities comprised customer deposits and other current liabilities. The terms of the Acquisition included an asset protection scheme (APS), which provides for CCB to pay to the Bank 90% of the losses incurred on non performing exposures and high risk performing exposures acquired.

Ex-CCB's obligations under the APS, the BTA and the transitional services agreement between the Bank and the ex-CCB are guaranteed by the Republic of Cyprus (Refer to Note 49.4.).

During the due diligence process, the Bank's management, together with the Advisers, performed a valuation of the Acquisition perimeter in order to determine the fair value of the Assets and Assumed Liabilities using the information made available to them. That information, together with additional more recent summarised information provided to the Bank by CCB, was used by the Bank and its Advisers to set a target asset value of €247 million (the "Target Asset Value"). The valuation results used to conclude the terms of the final offer submitted are management estimates, estimated prior to the execution of the BTA.

The Bank agreed to pay CCB €74,2 million in cash as consideration for the transfer of this Target Asset Value. As announced on 25 June 2018 and with reference to 31 December 2017 figures, the balance sheet (before fair value and other adjustments) comprised of a portfolio of primarily performing loans (net loans: €4,6 billion), Cyprus Government Bonds (€4,1 billion), cash (€1,6 billion), customer deposits (€9,7 billion) and certain other current liabilities and assets. In accordance with the BTA, the ex-CCB provided the Bank with updated financial information regarding the Assets and Assumed Liabilities within 10 business days from the date of Completion for the Bank to proceed with a valuation of such items. The Final Asset Value was less than the Target Asset Value, and as a result the perimeter of Assets transferred increased by the amount of the difference and a receivable of €48,5 million was recognised in other assets.

Following the Completion, the Bank performed a Purchase Price Allocation (PPA) assessment which is detailed in Note 49.7. The Group's independent auditor has expressed an opinion on the PPA in accordance with the International Standards on Auditing (ISA) 805, Special Considerations – Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement. The opinion was addressed to the Bank's Board of Directors.

49.2. Asset Protection Scheme Agreement (APS)

On 3 September 2018, the Bank and CCB entered into the APS Agreement to protect €2.300 million of the acquired loan portfolio (fair value) against future losses, with the Republic of Cyprus providing a direct guarantee to the Bank of ex-CCB's obligations under the APS Agreement (Refer to Note 49.4.). This provides for ex-CCB to pay to the Bank 90% of the losses that the Bank incurs in connection with defined pools of loans and receivables (APS Assets) which are part of the Assets. The Bank's

NOTES TO THE FINANCIAL STATEMENTS
49. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES) (CONTINUED)

losses in respect of the APS Assets include impairment losses, losses on sale and costs of recoveries.
The APS Assets were classified into two pools:

1) APS Pool 1 (APS1): Assets with fair value of €1.386 million and a 12-year duration coverage from the Completion Date with an option to extend by a fixed 2-year period; and

2) APS Pool 2 (APS2): Assets with a fair value of €915 million and a 10-year duration coverage from the Completion Date with an option to extend by a fixed 2-year period. The gross value of APS Assets in APS2 (€985m) is already within the prescribed ceiling, as determined in the APS Agreement. These ceilings require the gross exposure of assets under Pool 2 to not exceed:

    a) €1.100 million by the third anniversary of the Completion

    b) €750 million by the fourth anniversary of the Completion

    c) €500 million by the fifth anniversary of the Completion

Guarantee fee payable

The Bank must pay certain fees to the Republic of Cyprus in connection with the APS Agreement. An admission fee of €15 million is payable on the first anniversary of Completion. On the second anniversary of Completion, the Bank can elect to either withdraw €250 million of APS Assets or pay a guarantee fee of €17 million. On the third anniversary of Completion, the Bank can elect to either withdraw €350 million of APS Assets or pay a guarantee fee of €23 million. For each subsequent anniversary of Completion until the eleventh anniversary, the Bank must pay a guarantee fee of €1 million (8 payments in total). If the Bank elects to exercise its options to withdraw assets from the APS, then the guarantee fees payable would be reduced compared to if the Bank opts to keep such assets within the APS, and would therefore facilitate a gradual wind down of the APS across its lifetime. Additionally, the Bank may exercise the option to withdraw assets partially, in which case the guarantee fee payable would be calculated pro rata on the residual non-withdrawn amount. It is in the Bank's discretion to select which APS Assets it would withdraw from the APS in the case that the Bank elects to exercise any or both options to withdraw assets. The maximum amount of fees payable to the Republic of Cyprus would be an amount equal to €63 million.

49.3. Transitional Services Agreement (TSA)

On 3 September 2018, the Bank and CCB entered into a transitional services agreement (TSA). The TSA governs the provision of certain services from ex-CCB to the Bank, including Central Unit Operations, Front Line Operations, Front Line Credit and Information Technology to assist in the orderly transition of the Business into the Bank's ownership (Services).

The agreement also entailed certain provisions with regards to the properties owned by CCB and those leased from third parties and which are used by the Bank as part of its operations. Rental cost in relation to these is presented in administrative expenses (Note 13) under "operating leases of land and buildings".

The TSA contains detailed provisions governing the relationship between the parties in delivery of the Services (including agreed migration principles and the creation of a migration plan, as well as governance arrangements) and obligations of ex-CCB to follow the Bank's instructions and comply with the Bank's mandatory policies in delivery of the Services.

The TSA commenced on the date of Completion and shall end on the date that is 15 months after that date. The Bank may terminate the TSA or any of the individual Services (in whole or in part) at any time throughout the life of the TSA by giving not less than 20 business days (as defined in the TSA) written notice to ex-CCB.

49.4. Government Guarantee

A Deed of Guarantee (DoG) was entered between the Bank and with the Republic of Cyprus (RoC) in respect of certain obligations of CCB and its subsidiaries under the Acquisition Documents.

Pursuant to the Deed of Guarantee, the RoC guarantees payments by a member of CCB's group, when due, of all amounts payable by them to the Bank, each member of the Group, their successors and assigns, and their respective officers and employees ("Beneficiaries") under the Acquisition Documents. The RoC has also undertaken to ensure and guarantees punctual performance by CCB and any relevant member of CCB's group, when due, of all of their obligations under or pursuant to the APS, the BTA and the transitional services agreement.

The RoC agrees that if and each time that a member of CCB's group fails to make any payment to a Beneficiary when it is due under or pursuant to any of the Acquisition Documents, the RoC must on demand (without requiring a Beneficiary first to take steps against CCB or any other person) pay that amount to the Beneficiary as if it were the principal obligor in respect of that amount.

NOTES TO THE FINANCIAL STATEMENTS

49. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES) (CONTINUED)

49.5. Deed of Covenant

The Republic of Cyprus (RoC) has issued (i) €500 million 1,90% p.a. Fixed Rate Bonds due 17/12/2018 (the 2018 Bonds); (ii) €750 million 2,50% p.a. Fixed Rate Bonds due 16 December 2019 (the 2019 Bonds); (iii) €750 million 2,75% p.a. Fixed Rate Bonds due 15 December 2020 (the 2020 Bonds); (iv) €580 million 3,25% p.a. Fixed Rate Bonds due 15 December 2021 (the 2021 Bonds); and (v) €610 million 3,50% p.a. Fixed Rate Bonds due 15 December 2022 (the 2022 Bonds and, together with the 2018 Bonds, the 2019 Bonds, the 2020 Bonds and the 2021 Bonds, the Bonds) which were acquired as part of the Acquisition.

On 27 August 2018 the RoC entered into a deed of covenant (the "Deed") in favour of the holders from time to time of the Bonds (Holders). Pursuant to the terms of the Deed, the RoC irrevocably undertakes to the holders that if it: (a) fails to make any payment under the Bonds when due (whether in respect of principal or interest): (b) seeks to change the terms of the Bonds (whether by a change in law or otherwise); (c) indicates that it will be unable to make any such payment; and or (d) is otherwise in default (howsoever described) under the terms of any of the 2018 Bonds, the 2019 Bonds or the 2020 Bonds (each a "Default") then in each case it will, if so requested by any Holders, issue under the terms of the Republic of Cyprus' €9 billion Euro Medium Term Note (EMTN) programme an equivalent face amount of new EMTN bonds in exchange for and with the same commercial terms as the 2021 Bonds and 2022 Bonds, to the holders of the existing 2021 Bonds and 2022 Bonds.

The Deed further provides that if the RoC fails to issue such new EMTN Bonds within five Business Days in London and Cyprus following receipt of any such request, all of the Bonds shall become immediately due and repayable. The RoC agrees that a Holder may assign its rights under the Deed in whole or in part.

EMTN Bonds issued under the RoC's' €9 billion EMTN programme are governed by English law and held through Euroclear and Clearstream.

49.6. Acquisition-related costs

The Group incurred €10,2 million on consultancy and other professional services in respect to the acquisition of assets and liabilities of CCB. These costs have been included in 'administrative expenses'.

49.7. Identifiable assets acquired and liabilities assumed

In accordance with IFRS 3 (Refer to Note 2), all identifiable assets and liabilities acquired have to be measured at their fair value at the time of Acquisition. These fair values also represent the amounts upon initial consolidation. The difference between the purchase price and the balance of assets and liabilities acquired and measured at fair value is recognised as negative goodwill in the income statement, and directly increases the equity of the Bank.

With the initial target asset value of €247 million, the difference between the purchase price and the balance of assets and liabilities acquired was estimated at €172,8 million. Following the Completion of the Acquisition, the Bank, with the assistance of independent Advisers, performed a purchase price allocation assessment based on additional information made available to them and in accordance with IFRS.

The following overview shows the PPA in accordance with IFRS 3 as at the time of acquisition. For the allocation of the acquisition cost, the Group applied the rules of IFRS 3, adjusting the assets and assumed liabilities of the acquired business at their fair values.

	31 August 2018
	€'000
Cash and balances with Central Banks	**985.662**
Placements with other banks	**28.840**
Loans and advances to customers	**4.039.841**
Debt securities	**4.109.060**
Equity and other securities and collective investment units	**1.402**
Intangible assets	**12.164**
Deferred tax asset	**3.136**
Other assets	**160.033**
Total assets on boarded	**9.340.138**
Deposits by banks	**107.169**
Customer deposits and other customer accounts	**8.779.322**
Deferred tax liability	**45.689**
Other liabilities	**35.892**
Total liabilities on boarded	**8.968.072**
Net assets	**372.066**
Purchase price	**(74.200)**
Negative goodwill	**297.866**

NOTES TO THE FINANCIAL STATEMENTS

49. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES) (CONTINUED)

The gross contractual amount of loans and advances amounted to €4.458 million (€418 million were expected to be uncollectible at the aquisition date).
Other assets include indemnification assets of €78.435 thousand, a receivable from ex-CCB arising from the difference between the Final Asset Value less the Target Asset Value as per the BTA of €48,5 million (Refer to note 49.1.) and a receivable from ex-CCB relating to the Deposit Guarantee Scheme (Refer to note 48). The estimated undiscounted amount APS claims amounted to €71 million.

Other liabilities include off balance sheet exposures of €25.081 thousand.

Other assets and other liabilities, consist of items in transit as of the Completion Date.

Taking into account the purchase price of €74,2 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of negative goodwill of €297,9 million.

The acquired assets and liabilities summarised in the table above did not represent the entire balance sheet of CCB's business. For this reason, it is not practical to reliably determine the carrying amount of the assets and liabilities in the pre acquisition books of CCB.

It is also impracticable to disclose the profit or loss of the acquired business since the acquisition date. The acquired business has been integrated into the corresponding existing business lines and there is no reliable basis for allocating post acquisition results between the acquirer and the acquiree. Similarly, it is impracticable to disclose the revenue and profit or loss of the combined entity as though the acquisition date had been 1 January 2018. Only parts of CCB's business, and specified assets and liabilities, were acquired. There is no reliable basis for identifying the proportion of the pre acquisition results of CCB that relates to the business acquired by the Group.

49.8. Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation techniques
Loans and advances to customers	The fair value of the loans and advances to customers was estimated using the Income Approach in accordance with IFRS 13. More specifically, a collective assessment approach was adopted estimating the present value of cash flows based on homogeneous pools of loans (in terms of credit risk characteristics). Expected cash flows of these loans were estimated using PD and cure rates informed from the realized historic default and cure rates of CCB, compared to the Bank's equivalent historic data. Collateral parameters were aligned with those of the Bank by type of property. Expected cash flows have been discounted with a required rate of return comprised of liquidity risk premium, operational cost and cost of capital (performing/default). The collective assessment has been performed in respect of the on balance exposure of the Loan Book.
Government bonds	The market valuation approach was applied in the case of the CyGB using the matrix pricing technique. Specifically the closing yield curve of the international CyGBs (EMTN) as at the closing of 31 August 2018 was used applying at the same time the market driven required liquidity premium.
Off Balance Sheet Exposures	The fair value of the off-balance sheet exposures was estimated using the Income Approach in accordance with IFRS 13. More specifically, a collective assessment approach was adopted estimating the present value of cash flows based on homogeneous pools of loans (in terms of credit risk characteristics). Expected cash flows of these loans have been discounted with a required rate of return comprised of cost of capital, cost of borrowing and servicing cost of the average market participant (as per IFRS13 Fair Value Measurement).

NOTES TO THE FINANCIAL STATEMENTS

49. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES) (CONTINUED)

Assets acquired	Valuation techniques
Indemnified Assets	The fair value of the indemnification asset was estimated using the Income Approach in accordance with IFRS 13. Asset Protection Scheme: The fair value was estimated as the sum of: (a) The Present Value of claims to be made by the Bank to the Republic of Cyprus in the event of APS Losses. The claims and timing of these claims have been estimated depending on the initial performance status of each loan. All calculations are made on an asset by asset basis. The evolution of the present value of the claims is aligned with the evolution of the fair value of the loans covered by the APS. (b) The Present Value of fees payable from the Bank to the Republic of Cyprus admission fee and guarantee fees as described in Note 49.2.). Off-balance sheet exposures: The fair value was estimated on: (a) The estimated losses arising from the off-balance sheet exposures without an on balance sheet amount as at 31 August 2018. (b) The estimated losses arising from the off-balance exposures of credit cards with an on-balance sheet amount as at 31 August 2018. The above were considered to be indemnified and collectible in full taking into account that the counterparty is the RoC.
Intangible Assets	TSA agreement: The Fair Value has been estimated by applying the income approach, whereby the total personnel and administration costs over the 15-month duration of the TSA (equal to the expected economic benefit) are discounted to PV using a discount rate that is adjusted for the risk premium that market participants would require (Bank's cost of equity). Core deposits: The Fair Value has been estimated by applying the income approach, whereby cash lows (equal to the future economic benefit) are discounted to PV using the cost of equity of the average market participant (Bank's cost of equity). Purchased credit cards and overdrafts: The Fair Value has been estimated by applying the income approach, whereby cash flows (equal to the future economic benefit) are discounted to PV using the cost of equity of the average market participant (Bank's cost of equity).
Deposits	Term / fixed deposits: The Fair Value of Term Deposits has been estimated using the income approach and considering the future cash outflows that a market participant would expect to incur in fulfilling the obligation. Specifically, contractual cash outflows associated with Term Deposits, have been discounted using a discount rate that reflects the average market participant's required, risk adjusted return. The outcome of the valuation carried out was then compared to the contractual balance of the deposits. Since the difference between the results of the valuation technique and the contractual balance was insignificant, the contractual balance of the deposits was used. Short-term deposits: Deposits with on-demand features and very short-term maturities (i.e. Current Accounts and 2 & 7 days Notice Accounts) were assumed to be payable immediately.

NOTES TO THE FINANCIAL STATEMENTS

49. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES) (CONTINUED)

49.9. Integration of the Acquisition

As from 1 August 2018, the Board of Directors of the Bank established a temporary/ad hoc Integration Committee of the Board to ensure the effective oversight and input of the Board of Directors in smoothly implementing the integration strategy of the acquired business of certain assets and liabilities of the CCB. It is anticipated that the Integration Committee will be operational for a period of up to 18 months.

A full scale plan for the integration of the acquired Business has been launched with the assistance of international specialised advisors. Expected to be completed within 15 months of change of control. A detailed IT integration plan was also completed. The systems and data migration is planned to take place in the third quarter of 2019. Fully Operational Integration Governance has been set up involving specialised work streams, Integration Management Office, Executive Integration Steering Committee and Integration Committee of the Board.

As far as the execution is concerned, this is in line with the full-scale plan.

50. 2018 EU-WIDE STRESS TEST

The European Banking Authority (EBA) launched the 2018 EU wide stress test exercise, designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. For the first time, it incorporates IFRS 9 accounting standards. No pass-fail threshold has been included as the results of the exercise are designed to serve as an input to the Supervisory Review and Evaluation Process (SREP) under which decisions are made on appropriate capital resources. The EU-wide stress test is conducted on a sample of 48 EU banks covering roughly 70% of the banking sector in the EU and is run at the highest level of consolidation. The stress test involves the economic conditions under a baseline and an adverse scenario and were published by EBA on 31 January 2018. The EBA published the results of the EU-wide stress test exercise in November 2018.

51. 2018 EU-WIDE STRESS TEST

51.1. Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Market and Liquidity risks
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the management of the Group's capital.

51.2. Risk Management

The management and monitoring of all Group risks are centralised under a single division to which the following specialised risk management departments report:
- Credit Risk Management
- Market and Liquidity Risk
- Operational and Emerging Risk
- Risk Analytics
- Enterprise Risk Management & Governance
- Credit Monitoring & Control
- Credit Analysis & Evaluation
- Insurance Risk Management

These departments report to the Risk Management Unit (RMU), which is functionally independent from other units with executive authority and reports to the Board of Directors (BoD), through the Board Risk Management Committee (BRMC), as well as to the Chief Executive Officer.

The departments cover all risk areas across the Group's operations and are intensively working to ensure that the Bank fully conforms to the provisions of the Accord of Basel III, the Directives of the regulatory authorities and international best

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.2. RISK MANAGEMENT (CONTINUED)

practices. This is facilitated by the Enterprise Risk Management & Governance unit which serves as a horizontal function, whose primary aim is to facilitate in co-operation with other risk departments, the development and review of risk management frameworks and policies for the management of individual risks, co-ordinate and drive cross-departmental and departmental projects and enhance the management and monitoring of risks.

During 2018 the Board of Directors approved a revised Risk Appetite Framework (RAF) developed by the Risk Management Unit in line with international standards and best practices. The new RAF is part of the broader Enterprise Risk Management Framework and prescribes the process for risk appetite setting, feeding from the formulation of Material Risk Assessment and with a direct input into the Strategic Plan, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The framework encompasses both quantitative and qualitative limits across an array of the risk types facing the Bank and delineates responsibilities for its implementation, monitoring and governance (which also entails a breach escalation framework) in line with the Three Lines of Defence model and the Enterprise Risk Management Framework.

On the 28 February 2018, the Bank's Board of Directors approved a revised Risk Management Charter. One of the main changes in the Charter was the enhancement of the responsibilities of the newly created unit "Credit Analysis & Evaluation" which has been formed with the primary objective of identifying and assessing credit risk and providing independent second line of defence advice and recommendations to Loan Approval Committees. The roles and responsibilities of the "Enterprise Risk Management and Governance Unit" (ERMG) were also enhanced with the establishment of Model Validation capability which will provide Risk Oversight, Governance, Model Assessment and Validation.

Further to the above changes, in December 2018 the duties of the Risk, Strategy Capital and Analytics (RSCA) have been segregated into 1st and 2nd line of defence, in order for the Bank to adhere to industry best practice and regulatory guidelines. It was recommended that part of the existing activities of the set department remain within RMU and the department is re-named as Risk Analytics (with suitable segregation of duties and changes in both teams' Terms of Reference);

The changes aim to enhance the organisation of Risk Management unit and to reinforce the role of the second line of defence throughout the risk management cycle, with a special focus on the Bank's material risks.

51.3. Credit risk

Credit risk is the risk of financial loss to the Group if a customer and/or other counterparty to a financial instrument fail to meet their contractual obligations. This risk principally arises from lending, trade finance activities and treasury operations. The management of credit risk is one of the most important chapters in the Group's operation and is essential for its long term soundness.

Credit Risk Management

Credit Risk Management is responsible for detecting, evaluating, measuring and observing/controlling credit risk, based on the strategic objectives of the Bank.

During 2018 Credit Risk Management:

- Formulated and reviewed a number of credit risk related policies which were approved by the BoD. In general, credit risk related policies are reviewed and updated frequently to reflect any changes in the Group's risk appetite and strategy, the prevailing market environment/economy and Regulatory requirements.

- Monitored the loan portfolio of the Bank through the preparation of reports to both the Executive Management of the Bank and BRMC.

- Validated Individual Assessments of borrowers for impairment and challenged assumptions used for the calculation of expected credit losses (impairments). Prepared quarterly presentations of impairment results to the Impairment Committee and to the Board Audit Committee.

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.3. CREDIT RISK (CONTINUED)

- Established and utilised a system to monitor and control the nature, composition and quality of the credit portfolio including non-performing and forborne portfolio of the Bank via a defined set of Key Performing Indicators (KPIs) and proposed corrective or emergency (where needed) measures for the improvement of the portfolio quality and the mitigation of credit risk.

- Submitted reports to the CRO, the CEO and/or the Executive Enterprise Risk Management, the Compliance and Information Security Committee and the BRMC for briefing on individual topics that may be included in the reports and suggestions were made towards the mitigation of credit risk.

- Assessed and monitored of the composition and the quality of the portfolio per industry, individual, country, purpose of lending concentrations.

- Has participated in the setting of Risk Appetite Framework/Risk Appetite Statement through the recommendation of specific quantitative and qualitative metrics. Credit Risk Management unit monthly monitors such limits/metrics.

- Calculated credit Risk Weighted Assets (RWA) enabling the Bank to monitor its capital standing in a more efficient and timely manner.

- Continued to participate in the implementation/application of the relevant Directives of the Supervisory Authority.

- Submitted Regulatory reports (regular and ad-hoc) to the Central Bank of Cyprus and to the Single Supervisory Mechanism (SSM).

- Participated in the asset quality review of the CCB portfolio prior to the acquisition and over the onboarding phase and has been actively participating in the Integration process.

- Continued to monitor Concentration within the Bank's loan portfolio, in accordance with the Concentration Policy and the relevant metrics set by the Risk Appetite Statement, which includes industry and single borrower concentration limits and relevant reports were provided both to the Executive Management of the Bank and the BRMC.

Credit Monitoring and Control

The objective of the Unit is to monitor the quality of Bank's credit portfolio through the Early Warning Mechanism and the efficiency of early warning indicators. The Unit is expected to alert the Bank's management in case:
- of deterioration observed in portfolio's credit quality,
- of identified controls that could be set-up to mitigate identified risks.

Further, the Unit is responsible to test compliance of business units with Bank's Credit Policies.

The function of the Unit is performed through the analysis of the various segments of the Bank's portfolio, monitoring of KPIs as well as through reviews of individual clients/groups. The depth of the monitoring of the portfolio depends also on the level of the credit risk of the borrower/portfolio.

During 2018 Credit Monitoring and Control has been closely monitoring the Banks portfolio through Watch List Reports (performing portfolio) to assist in strengthening the first line of defense (Business Units) in the monitoring of their borrowing clients, take early appropriate action (i.e. pre-arrears / early arrears) and prevent deterioration of the credit quality of the portfolio. Furthermore, a system for the automation of credit monitoring of the portfolio (including automated early warning mechanism process) has been set up and is scheduled to roll out within the first quarter of 2019.

Credit Analysis and Evaluation

The department was set up in the second half of 2017 in order to provide an independent second line of defense advice and recommendations to loan approval committees for corporates, SME's, syndicated international lending and shipping credit proposals, and advise on appropriate risk mitigation measures for existing and new proposed loans and guarantees transactions.

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.3. CREDIT RISK (CONTINUED)

Additionally, the department reviews the Arrears and Property Management cases proposed by APS Cyprus and Business Advisory Unit (BAU) and provides advice and recommendations to the relative committee.

On top of the above, the department performs tasks related with counterparty risk which primarily comprise of the following:
- Monitoring of limits related to the Bank's Investment Framework (HBIF), including Treasury's investment in bonds, International Lending investments in syndicated loans, country and counterparty limits, and reports any limit breaches;
- Analysing and assessing requests by Treasury, International Lending, Financial Institutions or SWIFT on country, sovereign, financial institutions and any other counterparty to be submitted to Assets and Liabilities Management Committee (ALCO)/BoD for approval;
- Allocation of HBIF's country limits and bank limits to the various departments and communication this to ALCO; and
- Provides counterparty risk related metrics in the spectrum of review ISDA and CSA agreements.

Risk Analytics

Risk Analytics has been supporting Risk Management's credit risk modelling matters. It focuses on the analytically related elements of Risk Management with a focus on credit risk such as risk appetite modelling, capital stress testing models, collective provisioning, IFRS 9, rating and scoring models and regulatory and internal reporting. The Unit is also mandated to provide computational and analytical support to other RMU Units.

To achieve the above, sophisticated systems are employed to evaluate existing/potential borrowers' creditworthiness and to measure credit risk based on quantitative and qualitative criteria:
1. For the Retail sector, a credit risk assessment system is applied for the evaluation of the creditworthiness of customers and the measurement of credit risk (Credit Scoring). This system covers credit cards and other retail lending products.
2. For the Commercial and Corporate sectors, an internal credit rating system (Credit Rating) is applied which classifies companies into credit rating bands, thus assisting both in the assessment of the credit worthiness of a company and in the rationalisation of pricing requirements according to the risk undertaken, while taking into account each company's financial position and various qualitative criteria relating to the company as well as the market in which it operates.
3. For Treasury, there is a centralised management of exposures to countries, financial institutions and other counterparties. Limits are defined based on the Credit Limits Model, which is primarily based on the credit standing of the country and counterparty as determined by the credit ratings of External Credit Assessment Institutions, while also taking into account world and country ranks of counterparties in terms of assets but also specific country ranks.

51.3.1 Exposure to credit risk

51.3.1.1 Concentration of credit risk

The Group monitors concentration of credit risk by sector and by geographic location.

The concentration by geographic location for loans and advances to customers is measured based on the geographical position of the customer. The concentration by geographic location for investments and placements with other banks is based on the geographical position of the risk country of the issuer of the security and counterparty, respectively.

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.3. CREDIT RISK (CONTINUED)

The analysis of concentration of the risk of the Group at the reporting date is shown below:

	Loans and advances to customers		**Placements with other banks**		**Debt securities**	
	2018	2017	**2018**	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Carrying amount	**6.283.438**	2.766.738	**307.888**	348.176	**4.526.428**	1.018.902
Businesses	**3.313.503**	2.777.247	-	-	-	-
Individuals	**4.322.023**	1.277.666	-	-	-	-
Governments	-	-	-	-	**4.149.311**	729.854
Banks	-	-	**308.531**	348.176	**131.442**	40.015
Other sectors	-	-	-	-	**246.204**	249.033
	7.635.52	4.054.913	**308.531**	348.176	**4.526.957**	1.018.902
Provisions for impairment	**N/A**	(1.288.175)	**N/A**	-	**N/A**	-
Accumulated impairment losses	**(1.352.088)**	N/A	**(643)**	N/A	**(529)**	N/A
	6.283.438	2.766.738	**307.888**	348.176	**4.526.428**	1.018.902

Businesses in the above table include trade, construction and real estate, manufacturing, tourism and other companies as disclosed in Note 19.

Concentration by geographical location:	**Loans and advances to customers**		**Placements with other banks**		**Debt securities**	
	2018	2017	**2018**	2017	**2018**	2017
Carrying amount	**€'000**	€'000	**€'000**	€'000	**€'000**	€'000
	6.283.438	2.766.738	**307.888**	348.176	**4.526.428**	1.018.902
Eurozone	**7.501.089**	3.945.759	**76.433**	96.953	**4.353.764**	825.744
Other European countries	**114.060**	89.181	**143.704**	155.874	**32.206**	69.155
America	**7.166**	7.250	**84.777**	89.499	**101.788**	85.705
Oceania	**79**	17	**190**	12	-	-
Asia	**535**	484	**2.737**	4.456	**39.199**	38.298
Middle East	**4.453**	4.258	**627**	1.300	-	-
Africa	**8.144**	7.964	**63**	82	-	-
	7.635.526	4.054.913	**308.531**	348.176	**4.526.957**	1.018.902
Provisions for impairment	**N/A**	(1.288.175)	**N/A**	-	**N/A**	-
Accumulated expected credit losses	**(1.352.088)**	N/A	**(643)**	N/A	**(529)**	N/A
	6.283.438	2.766.738	**307.888**	348.176	**4.526.428**	1.018.902

At 31 December 2018, the analysis of debt securities per credit rating, based on the Regulation (EU) No 575/2013 and CRD IV 2013/36/EU for the Risk Weighted Assets calculation (as per Section 4, Article 138 of the regulation), in Moody's credit ratings equivalents were as follows:

	2018	2017
	€'000	€'000
Aaa	**377.585**	336.347
Aa1	**12.994**	-
Baa1 to B3	**4.135.849**	682.555
	4.526.428	1.018.902

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.3. CREDIT RISK (CONTINUED)

51.3.1.2 Group's exposure in countries with high credit risk

The Group closely monitors developments in the international markets so that any measures needed to reduce credit risk are promptly taken.

The monitoring of exposures in countries of high risk is centralised through systems that fully and on an ongoing basis cover all material exposures to these countries such as interbank placements, debt securities, other investments etc. Also, maximum acceptable levels are specified according to the rankings of the countries and taking into account their credit ratings, political, economic and other factors.

For the classification of a country as "High Risk" country, the Non-Investment Grade status of countries which as per the CRR is the worst, out of the best two ratings from Moody's, Fitch and S&P as well as the Euromoney Score of countries or the rating of the dependent territory are primarily considered

Some of the debt securities listed in the table below, based on the three level hierarchy depending on the significance of the inflows used to determine fair value, are classified in Level 2 and 3.

Category "Other countries" includes less material exposures in a number of countries.

The analysis of concentration of credit risk in countries with high credit risk at the reporting date is shown below:

NOTES TO THE FINANCIAL STATEMENTS
51. RISK MANAGEMENT (CONTINUED)
51.3 CREDIT RISK (CONTINUED)

At 31 December 2018

	Greece €'000	Lebanon €'000	Jordan €'000	Serbia €'000	Egypt €'000	Philippines €'000	Belarus €'000	South Africa €'000	Russia €'000	Ukraine €'000	Other countries €'000	**Total €'000**
Financial assets at fair value through profit or loss												
Government Bonds												
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Bank Bonds												
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Derivatives												
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Collective Investment Units												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	4	**4**
Financial assets at amortised cost												
Government bonds												
Carrying value (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Banks bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Other bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Placements with other Banks												
Carrying amount (amortised cost)	281	-	46	-	-	-	-	63	27.376	-	48	**27.814**
Accumulated 12 months Expected Credit Losses	(1)	-	-	-	-	-	-	-	(6)	-	(98)	**(105)**
Fair value	281	-	46	-	-	-	-	63	27.376	-	48	**27.814**
Loans and advances to customers												
Carrying amount (amortised cost)	98.686	436	-	201	5.712	-	1.397	1.283	13.092	3.151	1.289	**125.247**
Accumulated 12 months Expected Credit Losses	(759)	(1)	-	(696)	(1)	-	(3)	(871)	(8.382)	(1.969)	(1.698)	**(14.380)**
Fair value	98.766	418	-	347	5.627	-	1.299	1.353	13.202	1.756	1.313	**124.081**

NOTES TO THE FINANCIAL STATEMENTS
51. RISK MANAGEMENT (CONTINUED)
51.3 CREDIT RISK (CONTINUED)

At 31 December 2018

	Greece €'000	Lebanon €'000	Jordan €'000	Serbia €'000	Egypt €'000	Philippines €'000	Belarus €'000	South Africa €'000	Russia €'000	Ukraine €'000	Other countries €'000	**Total €'000**
Financial assets at fair value through other comprehensive income												
Government bonds												
Nominal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount in fair value reserve	-	-	-	-	-	-	-	-	-	-	-	**-**
Banks bonds												
Nominal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount in fair value reserve	-	-	-	-	-	-	-	-	-	-	-	**-**
Other bonds												
Principal amount	-	-	-	-	-	39.301	-	-	-	-	-	**39.301**
Carrying amount (fair value)	-	-	-	-	-	39.194	-	-	-	-	-	**39.194**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	(5)	-	-	-	-	-	**(5)**
Accumulated amount in fair value reserve	-	-	-	-	-	(280)	-	-	-	-	-	**(280)**
Total book value	**98.967**	**436**	**46**	**201**	**5.712**	**39.194**	**1.397**	**1.346**	**40.468**	**3.151**	**1.341**	**192.259**

NOTES TO THE FINANCIAL STATEMENTS
51. RISK MANAGEMENT (CONTINUED)
51.3 CREDIT RISK (CONTINUED)

At 31 December 2017

	Greece €'000	Lebanon €'000	Serbia €'000	Ukraine €'000	South Africa €'000	Russia €'000	Kazakhstan €'000	Egypt €'000	Other countries €'000	**Total €'000**
Assets held for trading										
Government Bonds										
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	**-**
Bank Bonds										
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	**-**
Derivatives										
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	**-**
Assets classified as held to maturity										
Government bonds										
Carrying value (amortised cost)	3.984	-	-	-	-	-	-	-	-	**3.984**
Fair value	3.987	-	-	-	-	-	-	-	-	**3.987**
Assets classified as loans and receivables										
Government bonds										
Carrying value (amortised cost)	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	**-**
Deposits in other banks										
Carrying value (amortised cost)	143	-	-	-	82	34.865	-	-	338	**35.428**
Fair value	143	-	-	-	82	34.865	-	-	338	**35.428**
Loan and advances to customers										
Carrying value (amortised cost)	68.457	530	377	1.085	1.519	19.245	118	5.582	638	**97.551**
Accumulated impairment losses	(596)	(1)	(486)	(2.176)	(710)	(7.172)	(148)	(7)	(1.283)	**(12.579)**
Fair value	66.792	504	365	1.071	1.476	18.327	115	5.378	617	**94.645**
Assets available for sale										
Government bonds										
Nominal value	-	-	-	-	-	-	-	-	-	**-**
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	**-**
Bank Bonds										
Nominal value	-	-	-	-	-	-	-	-	-	**-**
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	**-**
Accumulated impairment losses	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	**-**
Other bonds										
Nominal value	-	-	-	-	-	-	-	-	-	**-**
Carrying value (amortised cost)	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	**-**
Total book value	**72.584**	**530**	**377**	**1.085**	**1.601**	**54.110**	**118**	**5.582**	**976**	**136.963**

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. Market and Liquidity Risks

Market and Liquidity Risk

The Assets and Liabilities Management Committee (ALCO) is responsible for implementing the policy of the Bank's Board of Directors regarding the risks and profitability arising from the Group's assets and liabilities. Market and Liquidity Risk Management is responsible for the assessment, monitoring and management of the Group's market and liquidity risks within the framework of risk policies and limits defined by ALCO.

The Group's approach towards market and liquidity risk management is to concentrate these risks for all Group business units under the Treasury department. Treasury manages risks using a framework of activities and limits approved by ALCO. The Risk Management Unit is responsible for developing policies and processes for managing the risks and for their daily assessment and monitoring. Policies are reviewed at regular time intervals and are approved by ALCO, the Board Risk Management Committee and the Board of Directors itself.

51.4.1 Liquidity Risk

Liquidity risk is the risk of decrease in profits or capital, arising from a weakness of the Bank to meet its immediate obligations, without incurring additional costs. The Group's approach in managing liquidity risk is to ensure, to the extent possible (considering that the main role of the Bank as an intermediary is to accept short term deposits and grant long term loans), that there is adequate liquidity in order to satisfy its obligations, when they arise, under "normal" circumstances as well as under stress conditions, without the Group incurring any additional costs.

The Group currently operates mainly in Cyprus. The management of the liquidity of the Group's banking units (including compliance with regulatory limits), is undertaken by the Treasury department and is locally effected depending on the conditions prevailing in the various markets.

The Group places emphasis on the maintenance of stable customer deposits, as they represent one of its basic funding sources. This is mainly achieved through the maintenance of good and long-standing relationships of trust with customers and through competitive and transparent pricing strategies, also taking into consideration the liquidity position of the Bank.

Regular stress testing scenarios are performed to simulate extreme conditions and appropriate measures are taken whenever necessary.

The liquidity risk of the Bank is monitored daily by Market and Liquidity Risk Management.

The Group must comply with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements Regulation (EU) No 575/2013 (CRR) of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions). The LCR has been in effect since 1 October 2015 with a regulatory limit of 60% increasing to 100% from 1 January 2018, when the full phase-in of the requirement was effected.

The Group's LCR ratio was as follows:

	2018	2017
	%	%
At 31 December	**565,00**	277,00
Average for the year	**355,00**	293,00
Maximum percentage for the year	**565,00**	310,00
Minimum percentage for the year	**282,00**	276,00

Additionally, the Bank monitors the Net Stable Funding Ratio (NSFR) which also stems from CRR and which was expected to be officially introduced on 1 January 2018. Even though the official introduction of this ratio as a regulatory limit is being delayed, the Bank calculated this as per the Basel III requirements on a quarterly basis, with an expected minimum regulatory level of 100%.

The Group's NSFR ratio was as follows:

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

	2018	2017
	%	%
At 31 December	**210,00**	158,00
Average for the year	**180,00**	159,00
Maximum percentage for the year	**210,00**	160,00
Minimum percentage for the year	**156,00**	157,00

The High Quality Liquid Assets of the Group, calculated as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements Regulation (EU) No 575/2013 (CRR) of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions), as at 31 December, were as follows:

	2018	2017
	€'000	€'000
Cash and withdrawable Central Bank reserves	**4.254.253**	2.236.212
Other Level 1 assets	**4.438.758**	1.005.729
Total Level 2 assets	**33.514**	22.577
	8.726.525	3.264.518

On 20 December 2017, CBC announced the abolition of its prudential liquidity limits from 1 January 2018, in accordance with the CRR. A "national macroprudential liquidity measure" was introduced from 1 January 2018, which comprised of additional liquidity requirements in the form of "add-on" rates on some of the LCR parameters and additional requirements in the form of add-on rates on some other items which were not subject to any outflow rates according to the LCR regulation and these were imposed on top of the current LCR Regulation. This national macroprudential measure was in force until 31 December 2018, with the add-ons being relaxed by 50% as from 1 July 2018. The Bank was in full compliance with this LCR add-on for 2018.

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

Analysis of financial liabilities of the Group based on their remaining contractual maturity at 31 December 2018

	Carrying amount €'000	Gross nominal (inflows)/ outflows €'000	On demand €'000	Within three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000
Financial liabilities							
Deposits by banks	**216.199**	216.692	106.926	8.358	58.458	30.129	12.821
Customer deposits and other customer accounts	**14.709.168**	14.761.647	6.047.640	3.154.041	4.798.522	471.294	290.150
Derivatives	**7.981**						
- Cash inflows		(196.566)	(143.331)	(53.235)	-	-	-
- Cash outflows		197.611	143.914	53.697	-	-	-
Tax payable	**5.322**	5.322	5.322	-	-	-	-
Deferred tax liability	**44.457**	44.457	-	-	-	44.457	-
Other liabilities	**188.845**	189.820	163.503	12.113	14.172	32	-
Loan capital	**129.667**	129.667	-	-	-	-	129.667
	15.301.639	15.348.650	6.323.974	3.174.974	4.871.152	545.912	432.638

Analysis of financial liabilities of the Group based on their remaining contractual maturity at 31 December 2017

	Carrying amount €'000	Gross nominal (inflows)/ outflows €'000	On demand €'000	Within three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000
Financial liabilities							
Deposits by banks	**176.355**	176.505	97.347	17.726	61.432	-	-
Customer deposits and other customer accounts	**5.808.125**	5.814.920	3.428.841	1.295.960	943.043	144.675	2.401
Derivatives	**5.212**						
- Cash inflows		(465.476)	(117.212)	(308.338)	(20.098)	(19.828)	-
- Cash outflows		469.811	118.000	311.302	20.509	20.000	-
Tax payable	**5.263**	5.263	5.263	-	-	-	-
Deferred tax liability	**2.498**	2.498	-	-	-	2.498	-
Other liabilities	**147.221**	147.214	123.088	3.712	20.379	35	-
Loan capital	**139.667**	139.829	-	60	10.102	-	129.667
	6.284.341	6.290.564	3.655.327	1.320.422	1.035.367	147.380	132.068

NOTES TO THE FINANCIAL STATEMENTS
51. RISK MANAGEMENT EU-WIDE STRESS TEST (CONTINUED)
51.4 MARKET AND LIQUIDITY RISKS (CONTINUED)

The table below presents the encumbered and unencumbered assets:

31 December 2018	The Group				The Bank			
	Carrying amount of encumbered assets of which European Central Bank's eligible		Carrying amount of unencumbered assets of which European Central Bank's eligible		Carrying amount of encumbered assets of which European Central Bank's eligible		Carrying amount of unencumbered assets of which European Central Bank's eligible	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans on demand*	526	-	4.698.806	-	526	-	4.685.200	-
Equity instruments**	-	-	34.638	-	-	-	11.497	-
Debt securities	38.271	38.271	4.488.157	4.140.439	38.271	38.271	4.487.358	4.140.439
Loans and advances other than loans on demand	118.814	-	6.164.624	-	118.814	-	6.164.624	-
Other assets	-	-	582.350	-	-	-	560.156	-
Total assets	**157.611**	**38.271**	**15.968.575**	**4.140.439**	**157.611**	**38.271**	**15.908.835**	**4.140.439**

31 December 2017	The Group				The Bank			
	Carrying amount of encumbered assets of which European Central Bank's eligible		Carrying amount of unencumbered assets of which European Central Bank's eligible		Carrying amount of encumbered assets of which European Central Bank's eligible		Carrying amount of unencumbered assets of which European Central Bank's eligible	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans on demand*	155	-	2.445.040	-	155	-	2.433.134	-
Equity instruments**	-	-	30.037	-	-	-	9.232	-
Debt securities	-	-	1.018.902	55.339	-	-	1.018.092	55.339
Loans and advances other than loans on demand	97.441	-	2.810.852	-	97.441	-	2.810.852	-
Other assets	-	-	444.210	-	-	-	424.545	-
Total assets	**97.596**	**-**	**6.749.041**	**55.339**	**97.596**	**-**	**6.695.855**	**55.339**

*Loans on demand include Balances with Central Banks and Placements with other Banks receivable on demand.

**Equity instruments include equities and other securities and collective investment units (Group).

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

51.4.2 Market Risk

Market risks are derived from the change in the value of the Group's statement of financial position and the uncertainty in the stream of future earnings, resulting from changes in market conditions (volatility in foreign exchange, interest rates and market prices).

The Group has defined its strategy and methods of continuous monitoring for the control of market risk undertaking and the prudential management of these risks. More specifically, this is achieved mainly through the implementation of position and stop loss limits for foreign currency and other trading limits. In addition, the Bank maintains an approved Investment Framework with various limits, such as a limit on Bonds and Syndicated loans, limit on total investments, limits per issuer group, limits on maturities and limits on Value-at-Risk.

The Bank carries out its activities involving foreign currency through correspondence banks for the respective currencies. For the major currencies, the Bank maintains three bank relationships for USD, including one which is a full service relationship, three bank relationships for GBP, four bank relationships for RUB, and two bank relationships for CHF.

The table below presents the distribution of assets and liabilities that are subject to market risk between trading and non-trading portfolios:

	The Group			The Bank		
	Carrying amount	Trading portfolios	Non-trading portfolios	Carrying amount	Trading portfolios	Non-trading portfolios
31 December 2018	€'000	€'000	€'000	€'000	€'000	€'000
Assets						
Cash and balances with Central Banks	4.391.444	-	4.391.444	4.391.442	-	4.391.442
Derivatives	567	567	-	567	567	-
Placements with other banks	307.888	-	307.888	294.283	-	294.283
Loans and advances to customers	6.283.438	-	6.283.438	6.283.438	-	6.283.438
Debt, equity securities & Collective Investments Units	4.561.066	-	4.561.066	4.537.126	-	4.537.126
Indemnification assets	71.003	-	71.003	71.003	-	71.003
	15.615.406	**567**	**15.614.839**	**15.577.859**	**567**	**15.577.292**

	The Group			The Bank		
	Carrying amount	Trading portfolios	Non-trading portfolios	Carrying amount	Trading portfolios	Non-trading portfolios
31 December 2018	€'000	€'000	€'000	€'000	€'000	€'000
Liabilities						
Derivatives	7.981	7.981	-	7.981	7.981	-
Deposits	14.709.168	-	14.709.168	14.709.324	-	14.709.324
Subordinated loan capital	129.667	-	129.667	129.667	-	129.667
	14.846.816	**7.981**	**14.838.835**	**14.846.972**	**7.981**	**14.838.991**

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

	The Group			The Bank		
	Carrying amount	Trading portfolios	Non-trading portfolios	Carrying amount	Trading portfolios	Non-trading portfolios
31 December 2017	€'000	€'000	€'000	€'000	€'000	€'000
Assets						
Cash and balances with Central Banks	2.293.754	-	2.293.754	2.293.753	-	2.293.753
Derivatives	229	229	-	229	229	-
Placements with other banks	348.176	-	348.176	336.272	-	336.272
Loans and advances to customers	2.766.738	-	2.766.738	2.766.738	-	2.766.738
Debt ,equity securities & Collective Investments Units	1.048.939	450	1.048.489	1.027.321	450	1.026.871
	6.457.836	**679**	**6.457.157**	**6.424.313**	**679**	**6.423.634**

	The Group			The Bank		
	Carrying amount	Trading portfolios	Non-trading portfolios	Carrying amount	Trading portfolios	Non-trading portfolios
31 December 2017	€'000	€'000	€'000	€'000	€'000	€'000
Liabilities						
Derivatives	5.212	5.212	-	5.212	5.212	-
Deposits	5.984.480	-	5.984.480	5.984.480	-	5.984.480
Loan capital	10.000	-	10.000	10.000	-	10.000
Subordinated loan capital	129.667	-	129.667	129.667	-	129.667
	6.129.359	**5.212**	**6.124.147**	**6.129.359**	**5.212**	**6.124.147**

51.4.2.1 Foreign Exchange Risk

Foreign exchange risk arises from the undertaking of an open position in one or more foreign currencies. The Market and Liquidity Risk Unit monitors foreign currency positions on an ongoing basis within the risk management framework and the limits set by ALCO and the regulatory authorities. Within this framework, there are nominal limits (by currency, in total, during the day, end-of-day), gain/loss limits and Value-at- Risk (VaR) limits. The regulatory limits for open positions during working hours exceed the limits for open positions during non-working hours.

The VaR methodology is an important tool for the monitoring of foreign exchange risk. With this methodology, the Group calculates the maximum potential loss that may be incurred as a result of changes in market conditions, at a confidence level of 99% and over a one-day period (using the parametric method) based on the historical data of foreign exchange rate parities over a period of one year.

The table below presents VaR figures for the Group's foreign exchange risk:

	2018	2017
	€'000	€'000
At 31 December	**7**	11
Average for the year	**8**	10
Maximum amount for the year	**13**	76
Minimum amount for the year	**5**	4

The limitations of the VaR methodology are derived from the fact that the historical data used in the calculation may not be indicative of future events.

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

Analysis of assets and liabilites of the Group by currency as 31 December 2018

	Euro €'000	US Dollar €'000	British pound €'000	Rouble €'000	Swiss Franc €'000	Other currencies €'000	**Total €'000**
Assets							
Cash and balance with Central Banks	4.385.318	3.366	2.455	13	26	266	**4.391.444**
Placements with other banks	75.742	156.920	24.733	2.311	27.493	20.689	**307.888**
Loans and advances to customers	6.093.418	142.990	4.810	38.205	5	4.010	**6.283.438**
Debt securities	4.135.850	357.019	33.559	-	-	-	**4.526.428**
Equity and other securities and collective investment units	30.111	4.527	-	-	-	-	**34.638**
Investment in associate company	8.997	-	-	-	-	-	**8.997**
Property, plant and equipment	101.489	-	-	-	-	-	**101.489**
Intangible assets	46.546	-	-	-	-	-	**46.546**
Tax receivable	494	-	-	-	-	-	**494**
Deferred tax asset	16.326	-	-	-	-	-	**16.326**
Other assets	388.770	8.614	9.872	-	-	1.242	**408.498**
Total assets	15.283.061	673.436	75.429	40.529	27.524	26.207	**16.126.186**
Liabilities							
Deposits by banks	164.692	40.672	10.246	314	275	-	**216.199**
Customer deposits and other customer accounts	13.706.127	833.846	119.374	2.779	27.687	19.355	**14.709.168**
Tax payable	5.322	-	-	-	-	-	**5.322**
Deferred tax liability	44.457	-	-	-	-	-	**44.457**
Other liabilities	174.653	10.950	9.346	547	-	1.330	**196.826**
Loan capital	129.667	-	-	-	-	-	**129.667**
	14.224.918	885.468	138.966	3.640	27.962	20.685	**15.301.639**
Equity							
Share capital	99.237	-	-	-	-	-	**99.237**
Reserves	721.109	-	-	-	-	-	**721.109**
Equity attributable to shareholders of the parent company	820.346	-	-	-	-	-	**820.346**
Non-controlling interests	4.201	-	-	-	-	-	**4.201**
	824.547	-	-	-	-	-	**824.547**
Total liabilities and equity	15.049.465	885.468	138.966	3.640	27.962	20.685	**16.126.186**
Total position	233.596	(212.032)	(63.537)	36.889	(438)	5.522	
Effect of foreign currency derivatives on position	(237.668)	215.774	64.005	(38.211)	523	(4.423)	
Net currency position	(4.072)	3.742	468	(1.322)	85	1.099	

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

Analysis of assets and liabilites of the Group by currency as 31 December 2017

	Euro €'000	US Dollar €'000	British pound €'000	Rouble €'000	Swiss Franc €'000	Other currencies €'000	**Total €'000**
Assets							
Cash and balance with Central Banks	2.290.152	2.134	1.388	11	28	41	**2.293.754**
Placements with other banks	61.481	196.016	23.076	40.771	2.372	24.460	**348.176**
Loans and advances to customers	2.568.556	137.064	5.235	7	50.311	5.565	**2.766.738**
Debt securities	721.498	274.800	22.604	-	-	-	**1.018.902**
Equity and other securities and collective investment units	30.037	-	-	-	-	-	**30.037**
Investment in associate company	7.600	-	-	-	-	-	**7.600**
Property, plant and equipment	102.541	-	-	-	-	-	**102.541**
Intangible assets	34.254	-	-	-	-	-	**34.254**
Tax receivable	553	-	-	-	-	-	**553**
Deferred tax asset	12.286	-	-	-	-	-	**12.286**
Other assets	231.090	561	48	1	-	96	**231.796**
Total assets	6.060.048	610.575	52.351	40.790	52.711	30.162	**6.846.637**
Liabilities							
Deposits by banks	122.866	51.817	-	1.672	-	-	**176.355**
Customer deposits and other customer accounts	4.671.809	975.104	97.691	39.116	3.785	20.620	**5.808.125**
Tax payable	5.263	-	-	-	-	-	**5.263**
Deferred tax liability	2.498	-	-	-	-	-	**2.498**
Other liabilities	148.720	2.076	-	-	1.520	117	**152.433**
Loan capital	139.667	-	-	-	-	-	**139.667**
	5.090.823	1.028.997	97.691	40.788	5.305	20.737	**6.284.341**
Equity							
Share capital	99.237	-	-	-	-	-	**99.237**
Reserves	459.648	-	-	-	-	-	**459.648**
Equity attributable to shareholders of the parent company	558.885	-	-	-	-	-	**558.885**
Non-controlling interests	3.411	-	-	-	-	-	**3.411**
	562.296	-	-	-	-	-	**562.296**
Total liabilities and equity	5.653.119	1.028.997	97.691	40.788	5.305	20.737	**6.846.637**
Total position	406.929	(418.422)	(45.340)	2	47.406	9.425	
Effect of foreign currency derivatives on position	(411.729)	419.747	45.363	-	(46.462)	(6.919)	
Net currency position	(4.800)	1.325	23	2	944	2.506	

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

51.4.2.2 Interest rate risk

Interest rate risk is the Bank's exposure to adverse movements in interest rates and it arises mainly as a result of timing differences on the interest rate repricing of assets, liabilities and off-balance sheet items.

Interest rate risk is managed through the monitoring of the interest rate gaps by currency, by time interval and in total (gap analysis). In the gap analysis and in the calculation of the Economic Value of Equity shown below, a proportion of demand and savings deposits is assumed to be more stable (core deposits) and is slotted in time buckets with an average maturity of three years.

Analysis of assets and liabilities of the Group based on their contractual repricing or maturity dates at 31 December 2018

	Non-interest bearing €'000	Within one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	**Total €'000**
Assets							
Cash and balances with Central Banks	151.692	4.239.752	-	-	-	-	**4.391.444**
Placements with other banks	22.539	282.203	706	2.440	-	-	**307.888**
Loans and advances to customers	-	944.273	4.884.538	374.790	54.520	25.317	**6.283.438**
Debt securities	-	43.406	131.339	1.275.586	2.530.939	545.158	**4.526.428**
Equity and other securities and collective investment units	11.497	-	782	4.625	13.552	4.182	**34.638**
Investment in associate company	8.997	-	-	-	-	-	**8.997**
Property, plant and equipment	101.489	-	-	-	-	-	**101.489**
Intangible assets	46.546	-	-	-	-	-	**46.546**
Tax receivable	494	-	-	-	-	-	**494**
Deferred tax asset	16.326	-	-	-	-	-	**16.326**
Other assets	408.498	-	-	-	-	-	**408.498**
Total assets	768.078	5.509.634	5.017.365	1.657.441	2.599.011	574.657	**16.126.186**
Liabilities							
Deposits by banks	-	108.200	5.949	102.050	-	-	**216.199**
Customer deposits and other customer accounts	-	6.509.136	1.517.736	4.851.998	1.505.702	324.596	**14.709.168**
Tax payable	5.322	-	-	-	-	-	**5.322**
Deferred tax liability	44.457	-	-	-	-	-	**44.457**
Other liabilities	196.826	-	-	-	-	-	**196.826**
Loan capital	129.667	-	-	-	-	-	**129.667**
Total liabilities	376.272	6.617.336	1.523.685	4.954.048	1.505.702	324.596	**15.301.639**
Total position	391.806	(1.107.702)	3.493.680	(3.296.607)	1.093.309	250.061	**824.547**
Nominal value of interest rate derivatives	-	1.190.000	-	-	(1.190.000)	-	**-**
Net position	391.806	82.298	3.493.680	(3.296.607)	(96.691)	250.061	**824.547**

NOTES TO THE FINANCIAL STATEMENTS

51 2018 EU-WIDE STRESS TEST (CONTINUED)

51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

Analysis of assets and liabilities of the Group based on their contractual repricing or maturity dates at 31 December 2017

	Non-interest bearing €'000	Within one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	**Total €'000**
Assets							
Cash and balances with Central Banks	55.178	2.238.576	-	-	-	-	**2.293.754**
Placements with other banks	17.649	330.527	-	-	-	-	**348.176**
Loans and advances to customers	-	614.562	1.910.442	225.479	10.432	5.823	**2.766.738**
Debt securities	-	45.666	50.114	115.306	268.817	538.999	**1.018.902**
Equity and other securities and collective investment units	9.231	-	5.992	3.545	11.269	-	**30.037**
Investment in associate company	7.600	-	-	-	-	-	**7.600**
Property, plant and equipment	102.541	-	-	-	-	-	**102.541**
Intangible assets	34.254	-	-	-	-	-	**34.254**
Tax receivable	553	-	-	-	-	-	**553**
Deferred tax asset	12.286	-	-	-	-	-	**12.286**
Other assets	231.796	-	-	-	-	-	**231.796**
Total assets	471.088	3.229.331	1.966.548	344.330	290.518	544.822	**6.846.637**
Liabilities							
Deposits by banks	-	97.419	17.689	61.247	-	-	**176.355**
Customer deposits and other customer accounts	-	3.164.358	479.000	1.306.684	687.473	170.610	**5.808.125**
Tax payable	5.263	-	-	-	-	-	**5.263**
Deferred tax liability	2.498	-	-	-	-	-	**2.498**
Other liabilities	152.433	-	-	-	-	-	**152.433**
Loan capital	129.667	-	10.000	-	-	-	**139.667**
Total liabilities	289.861	3.261.777	506.689	1.367.931	687.473	170.610	**6.284.341**
Total position	181.227	(32.446)	1.459.859	(1.023.601)	(396.955)	374.212	**562.296**
Nominal value of interest rate derivatives	-	-	-	5.000	(5.000)	-	**-**
Net position	181.227	(32.446)	1.459.859	(1.018.601)	(401.955)	374.212	**562.296**

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

In addition to monitoring interest rate gaps, interest rate risk management is carried out mainly by monitoring the sensitivity of the Group's Economic Value of Equity and Net Interest Income under various scenarios of interest rate changes.

Market and Liquidity Risk Management monitors interest rate positions on a continuous basis, within the risk management framework and limits set by ALCO. ALCO is regularly informed about the magnitude of interest rate risk and makes decisions for the management of the risk based on this information. Scenario calculations for interest rate changes consider both parallel and non-parallel shifts of the yield curve.

The table below presents the impact on the Group's economic value of equity from a change of ±100 basis points in interest rates by currency at year end:

2018	**Euro**	**US Dollar**	**Other currencies**	**Total of negative**
Change (€000)	**€'000**	**€'000**	**€'000**	**€'000**
+100 basis points	(3.306)	2.660	957	**(3.306)**
-100 basis points	4.162	(2.784)	(992)	**(3.776)**

2017	**Euro**	**US Dollar**	**Other currencies**	**Total of negative**
Change (€000)	**€'000**	**€'000**	**€'000**	**€'000**
+100 basis points	(15.333)	3.771	976	**(15.333)**
-100 basis points	17.087	(3.975)	(1.013)	**(4.988)**

In the calculation of Economic Value of Equity sensitivity, for the discounting needed to perform the calculations, the risk-free yield curve was used for each currency.

The tables below present the impact on net interest income (over the next 12 months) as a result of a change of ±100 basis points in interest rates by currency at year end:

2018	**Euro**	**US Dollar**	**Other currencies**	**Total of negative**
Change (€'000)	**€'000**	**€'000**	**€'000**	**€'000**
+100 basis points	39.201	4.710	1.445	**45.356**
-100 basis points	(39.201)	(4.710)	(1.445)	**(45.356)**

2017	**Euro**	**US Dollar**	**Other currencies**	**Total of negative**
Change (€'000)	**€'000**	**€'000**	**€'000**	**€'000**
+100 basis points	23.548	6.762	1.213	**31.523**
-100 basis points	(23.548)	(6.762)	(1.213)	**(31.523)**

It is noted that under current conditions, the reduction in interest rates by 100 basis points is theoretical since market rates for the Euro and most foreign currencies for which the Bank holds positions, besides US dollar, are low. For the calculations of Net Interest Income sensitivity, for current accounts it is assumed that interest rates will change by only 15 basis points in the Euro and that they will remain unchanged in foreign currencies.

51.4.2.3 Price Risk

Price risk is derived from the undertaking of an open position in equities, bonds or derivatives. The Group manages this risk through policies and procedures of setting and monitoring open position limits, stop loss limits on trading positions, as well as concentration limits by issuer.

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.4. MARKET AND LIQUIDITY RISKS (CONTINUED)

The table below presents the impact on financial results and own funds (including the impact from changes in net profits) from reasonably possible changes in equity prices which are traded on stock exchanges:

	2018		2017	
	Net profits €'000	**Own Funds €'000**	Net profits €'000	Own Funds €'000
+15% change in index	**679**	**1.045**	67	1.317
-15% change in index	**(679)**	**(1.045)**	(67)	(1.317)

51.5 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Bank, this definition includes legal, conduct and reputation risks, but excludes strategic risk.

The Bank has adopted the principles and provisions set out in the guidelines of the Directives of the Central Bank of Cyprus, the Single Supervisory Mechanism, Basel III framework as adopted by the EU and the Committee for European Banking Supervisors (CEBS).

The Bank considers operational risk to be a principal risk, since it is inherent in all activities, processes and procedures, professional and personal conduct and systems of the Bank. To this end, it is committed to set out the appropriate culture as well as suitable processes and systems to identify, measure, manage and mitigate operational risk in an effective way and in line with the Bank's risk appetite, through the adoption and the implementation of a uniform Operational Risk Management Framework.

The Operational Risk Management Framework (ORMF) is a key framework within the Bank's Enterprise Risk Management Framework (ERMF). It sets out the principles, governance, structure and policyarchitecture whereby the Bank manages its operational risk exposure. The Bank's ORMF is developed inaccordance with the principles and architecture of the Bank's ERMF as well as relevant regulatoryprinciples. The financial insurance coverage held by the Bank constitutes a significant tool for limiting thefinancial consequences experienced by the Bank deriving from operational risk events. Theimplementation of the ORMF is supported and overseen by the Operational & Emerging RiskManagement Unit (O&ER).

The BoD supports the development of a robust operational risk management culture where the roles of business and control functions, under a three line of defence model, are well defined and respected. The Board encourages open discussion, challenge and thorough analysis of operational risks identified, so as to ensure that they are appropriately managed within the Bank's risk appetite.

Over the course of 2018, the effective management of operational risk and hence, the implementation of a strong and effective control environment constituted one of the Bank's main priorities, mainly due to the acquisition of certain assets and liabilities of CCB, in September 2018.

Integration Risk currently represents a key risk area within the Bank that affects almost all Operational Risksub-categories.

The concurrent integration of people, clients and information constitutes a material challenge for the Bank and necessitates significant resources to be committed to the project, where significant integration issues are identified, monitored and resolved.

As the Integration progresses, newly emerging unexpected integration risks are promptly resolved bythe Integration team / Board Integration Committee in order to meet the target completion date.

To this end, a strong project management governance and clear communication channels have been set within the Bank for the identification, prioritisation and resolution of issues arising. O&ER devotes significant resources under the various integration workstreams to become aware, provide support and ensure measures are taken to minimise relevant operational risks.

51.6 Capital management

Capital management ensures compliance with the regulatory requirements, which are set by the responsible Regulatory Bodies for banks in Cyprus. According to the European Council's Regulation (EC) 1024/2013, specific tasks concerning policies relating to the prudential supervision of credit institutions have been assigned to the European Central Bank (ECB). Since 4 November 2014 the ECB has taken on full responsibility for the supervision of important credit institutions in participating Member States, including the Group, with the assistance of the local supervisory authorities. The Central Bank of Cyprus (CBC), as part of its supervisory role, has adopted the recommendations of the Basel Committee and the European Directives on banking supervisory matters.

Effective from 1 January 2014, the European Parliament's and Council's Directive 2013/36/EU (CRD IV) and the Regulation (EU) No 575/2013 (CRR) of 26 June 2013 became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework.

The Regulation (EU) No 575/2013 (CRR) establishes the prudential requirements for capital, liquidity and leverage that credit institutions need to abide by and is immediately binding on all European Union Member States. The Directive 2013/36/EU (CRD IV) governs access to deposit taking activities and internal governance arrangements including remuneration, board composition and transparency, while it also sets out additional capital buffer requirements. Unlike the Regulation (EU) No 575/2013 (CRR), the Directive 2013/36/EU (CRD IV) has been transposed into national law. The Regulation (EU) No 575/2013 (CRR) introduces significant changes in the prudential and regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital, changes in the calculation of risk weighted assets and the introduction of new measures relating to leverage, liquidity coverage requirements and net stable funding requirements.

The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 1 January 2018, and some other transitional provisions with phase in until 2024 (the latest).

Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017, was issued amending Regulation (EU) No 575/2013, regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public-sector exposures denominated in the domestic currency of any Member State. According to the Regulation, institutions are allowed to exclude from their CET 1 capital and leverage ratios a portion of the increased expected credit loss provisions from the introduction of IFRS 9 for a transitional period. The transitional period has a maximum duration of five years and starts in 2018. The portion of expected credit loss provisions that can be excluded from CET 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.

51.6.1 Regulatory developments

In December 2017, the Basel Committee published the revisions to the Basel III framework. Basel III reforms complement the initial phase of Basel III reforms published in 2010, and seek to restore credibility in the calculation of risk weighted assets (RWAs) and improve the comparability of banks' capital ratios.

The Basel III reforms include changes to the risk weights under the standardised approach for credit risk and market risk, replacement of the operational risk approach with a single standardised approach, amended set of rules for the calculation of credit valuation adjustment (CVA), revised definition of the exposure measure for the leverage ratio, introduction of leverage ratio buffer for global systemically important banks (G SIBs) and aggregate output floor to ensure that banks' total RWAs are no lower than 72,5% of the total risk-weighted assets calculated using the standardised approaches.

In January 2019, the Basel Committee published the final changes to the market risk framework and conducted a "fundamental review of the trading book" (FRTB). The revised framework includes changes to the boundary of the banking book and the trading book, changes to the internal model approach to address the impact of non-modellable risk factors and changes to the standardised approach to align the treatment of foreign currency positions, options and index instruments with the associated risks.

The Basel III reforms will be implemented on 1 January 2022. For the output floor a five year transitional provisions will be applied from that date, commencing at the rate of 50%.

The Bank is the process of examining the revised framework in order to be prepared for the effects of these amendments.

The wide ranging nature of these revisions means that they will be applied in the EU through substantial revisions to the CRR (CRR II) and through a new round of EBA technical standards and guidance. They have to be transposed into local law before coming into effect.

Basel III framework comprises of three Pillars:
- Pillar I – Enhanced minimum capital and liquidity requirements
- Pillar II – Enhanced supervisory review process for firm-wide risk management and capital planning

- Pillar III – Enhanced risk disclosure and market discipline

51.6.2 Pillar I – Enhanced minimum capital and liquidity requirements

51.6.2.1 Capital Requirements

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

Credit Risk

The Group has adopted the Standardised Approach for the calculation of the minimum capital requirements against credit risk. Under this approach, exposures are classified in specified classes and are weighed using specific weights, depending on the class the exposures belong to, their credit rating and/or the characteristics of the exposure. Also, the Basel framework suggests two alternative methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Group has applied the Comprehensive Approach, as it allows for a fairer recognition and better measurement of the Group's collaterals.

Market Risk

Regarding market risk, the Group has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the capital requirements of positions on interest rates, equity and debt securities, foreign exchange and derivatives derived from the trading portfolio using predefined models, by risk category.

Operational Risk

The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk. Under the Basic Indicator Approach (BIA), the own funds requirement for operational risk is equal to 15% of the average of three years of the relevant indicator as set out in Article 316 of the CRR. The relevant indicator is based on the sum of the Group's net interest income and its net non interest income after certain qualification adjustments. Following the Acquisition, and after obtaining the approval of ECB, the Bank amended the calculation of the relevant indicator under the BIA approach to take into account the acquisition of the perimeter, pursuant to Article 315(3) of Regulation (EU) No 575/2013, by using the three-year forward-looking business estimates for the acquired perimeter as no historical data of the combined entity is available. The Bank will progressively replace the forward-looking business estimates with historical data once available for the combined entity, in the calculation of the relevant indicator for the operational risk own fund requirements.

Regulatory Capital

The Group's regulatory capital is calculated in accordance with the provisions of the Regulation (EU) No 575/2013 and is analysed as follows:

Common Equity Tier 1 capital

Common Equity Tier 1 capital includes share capital, share premium, retained earnings including the profit/loss for the year, accumulated other comprehensive income (i.e. revaluation reserve of investments in debt securities, revaluation reserve of investments in equity and other securities and property revaluation reserve) and other reserves such as translation reserve and reduction of share capital reserve.

The carrying amount of goodwill and other intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from CET 1 capital (subject to the transitional provisions of the relevant CBC circular (R.A.A. 393/2014) up to 31 December 2017).

As per regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017 issued amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS9, a portion of the impact of expected credit losses provisions is added back to CET 1 capital allowing for a transitional period of five years until full impact on 2023. For 2018 the portion added back is set at 95% and will gradually reduce to 25% in 2022.

Pursuant to Article 34 of the CRR the prudent valuation requirements of Article 105 of the CRR are applied to all assets measured at fair value and deducted from CET 1 capital the amount of any additional value adjustments necessary.

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.6. CAPITAL MANAGEMENT (CONTINUED)

Additionally, the Group's contribution to the Investors Compensation Fund, as per the requirements of Circular 162 issued on 10 October 2016 by the Cyprus Securities and Exchange Commission (CySEC) and value adjustments due to the requirements for prudent valuation as per Article 105 of Regulation (EU) No 575/2013 is deducted from CET 1 capital.

With regards to the Bank's significant investments in financial sector entities, including its investments in subsidiary companies which operate in the insurance sector and deferred tax assets that rely on future profitability and arise from temporary differences, the Bank applied the exemption from deduction from CET 1 capital in accordance with the provisions of Article 470 of the CRR and these items are risk weighted at 250%.

Additional Tier 1 capital

Additional Tier 1 capital includes hybrid instruments, composed by Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2).

The carrying amount of intangible assets is deducted from AT1 capital (subject to the transitional provisions of the relevant CBC circular (R.A.A. 393/2014) up to 31 December 2017).

Tier 2 capital

Tier 2 capital includes subordinated loan capital. In addition, other transitional adjustments in relation to property revaluation reserve were included in Tier 2 capital up to 31 December 2017.

The Group's Capital policy aims to ensure the viability of the Bank through the maintenance of an appropriate level of capital, so as to meet regulatory requirements and internal buffers set, safeguard the best interests of shareholders and support its business strategy.

The position of the Group's regulatory capital and risk weighted assets as at 31 December was as follows:

	2018[1]	2017[3]
	€'000	€'000
Own funds		
Common Equity Tier 1 (CET 1)	**759.517**	483.005
Additional Tier 1 (AT1)	**129.667**	122.454
Tier 1 (T1)	**889.184**	605.459
Tier 2 (T2)	-	5.121
Total regulatory capital	**889.184**	610.580
Risk weighted assets		
Credit risk	**4.009.947**	3.005.974
Market risk	**947**	3.938
Operational risk	**785.082**	408.688
Total risk exposure amount for credit valuation adjustments (CVA)	**3.624**	1.034
Total risk weighted assets	**4.799.600**	3.419.634

The Capital Adequacy Ratios[1] of the Group and the Bank under Pillar I, which are above the minimum regulatory requirements, were as follows:

Capital Adequacy Ratios	**Group (transitional basis IFRS 9)**		**Group (fully loaded basis IFRS 9)[7]**		**Group (fully loaded basis IAS 39)**	**Minimum regulatory capital requirements (Phase-in)**
	31 December 2018	**31 December 2017[2]**	**31 December 2018**	**31 December 2017**	**31 December 2017[6]**	**31 December 2018[4]**
Capital Adequacy Ratio (%)	18,53%	17,86%	18,00%	16,79%	17,67%	13,08%
Tier 1 Ratio (%)	18,53%	17,64%	18,00%	16,75%	17,63%	11,08%
Common Equity Tier 1 (CET 1) Ratio (%)	15,82%	13,85%	15,26%	12,92%	13,84%	9,58%

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.6. CAPITAL MANAGEMENT (CONTINUED)

Note 1: Including fourth quarter 2018 profits, prior to obtaining AGM approval of year-end profits.
Note 2: Fully loaded basis applicable for 31 December 2017, adjusted with IFRS 9 initial application impact and applying transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposure treatment of certain public-sector exposures denominated in the domestic currency of any Member state as per Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017.
Note 3: Under IAS39 transitional basis.
Note 4: Excluding Pillar II capital guidance and based on 2017 SREP with reference date 31 December 2016.
Note 5: Excluding Pillar II capital guidance and based on 2018 SREP with reference date 31 December 2017, effective from 1 May 2019.
Note 6: Under IAS39 fully loaded basis.
Note 7: Applicable as of 1st January 2023.
Note 8: Based on the notification, of ECB's intention to adopt a decision establishing prudential requirements pursuant to Article 16 of Council Regulation (EU) No 1024/2013.
Note 9: Subject to regulatory approval for inclussion of €150 million in CET 1 capital.

The corresponding capital ratios[1] of the Bank for 31 December 2018 were as follows:

Capital Adequacy Ratio (%)	Transitional basis	Fully loadedbasis IFRS 9[7]
Capital Adequacy Ratio (%)	18,46%	17,93%
Tier 1 Ratio (%)	18,46%	17,93%
Common Equity Tier 1 (CET 1) Ratio (%)	15,76%	15,20%
Common Equity Tier 1 capital (€million)	757	720
Risk Weighted Assets (RWAs) (€million)	4.802	4.739

The Group's minimum phase in Capital Adequacy Ratio, effective from 1 January 2018, was set at 13,075%, which includes, minimum Pillar I own funds requirements of 8%, own funds Pillar II requirement of 3,2% and a phase in capital conservation buffer (CCB) of 1,875%. This was based on Supervisory Review and Evaluation Process 2017 (SREP 2017) conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2016, and also having regard to other relevant information received thereafter.

Moreover, the Group's minimum CET 1 and Tier 1 ratios, effective as from 1 January 2018, were set at 9,575% and 11,075% respectively.

Based on the final 2017 SREP letter the Pillar II requirement which was applicable as from 1 January 2018 has been reduced from 3,5% to 3,2%. Furthermore, the Bank shall refrain from making distributions to its shareholders.

In addition to the above, the ECB has provided on a consolidated basis, a revised Pillar II capital guidance to be made up entirely of CET 1 capital, which has been reduced compared to 2017.

The increase in CET 1 ratio (transitional basis) compared to 31 December 20171 , was the result of the combination of the increase in CET 1 capital, primarily due to current year profits mainly due to negative goodwill arising from the Acquisition, and the increase in risk weighted assets as a result of the Acquisition.

The fully underwritten Rights Issue and the Private Placement have resulted in the successful raising of €150 milion of shareholders' equity which would increase CET 1 ratio and Capital Adequacy ratio of 31 December 2018 by 313 basis points respectively thus enhancing the capital base of the Group.

Supervisory Review and Evaluation Process 2018 (SREP 2018)

Following ECB's draft[8] decision in establishing prudential requirements, the Bank is required to maintain for 2019, effective from 1 May 2019, on a consolidated basis, a phase in Capital Adequacy Ratio of 14,075%, which includes:
- the minimum Pillar I own funds requirements of 8% in accordance with Article 92(1) of Regulation (EU) No 575/2013 (of which up to 1,5% can be met with Additional Tier 1 Capital and up to 2% with Tier 2 Capital),
- an own funds Pillar II requirement of 3,2% required to be held in excess of the minimum own funds requirement (to be made up entirely of CET 1 Capital) (SREP 2017: 3,2%),
- a phased-in combined buffer requirement which for 2019 includes the fully loaded capital conservation buffer of 2,5% (SREP 2017: 1,875% phased-in), which has to be made up with CET 1 capital and the O SII buffer of 0,375% (as per revised CBC circular dated 25 October 2018, the fully loaded O-SII buffer increases from 1% to 1,5%) (SREP 2017: 0%), with application starting from 1 January 2019 which is phased-in over a period of four years.

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.6. CAPITAL MANAGEMENT (CONTINUED)

Additionally, applicable for Hellenic Bank, the combined buffer requirement includes:

- a Counter Cyclical Capital Buffer (CCyB) for which the CBC has set the level at 0% for exposures located in Cyprus for 2017, 2018 and for the first half of 2019 (the Institution specific CCyB for 2017 and 2018 was 0%)

- a Systemic Risk Buffer (currently applicable only for exposures located in Estonia of credit institutions authorised in Cyprus, for which the CBC reciprocated the Estonian macroprudential measure. For Hellenic Bank these exposures are immaterial).

The draft[8] 2018 SREP decision will apply from 1 May 2019.

Based on the draft SREP letter the Pillar II requirement which is applicable as from 1 May 2019 has remained the same as in 2018 at 3,2%. Furthermore, the Bank shall refrain from making distributions to its shareholders.

Taking into account the above, the Group's minimum CET 1 and Tier 1 ratios effective as from 1 May 2019 are set at 10,575% and 12,075% respectively.

In addition to the above, the ECB has provided on a consolidated basis, a revised Pillar II capital guidance to be made up entirely of CET 1 capital, which has remained the same as in 2018.

The capital ratios of the Group, are above minimum regulatory requirements based on the draft[8] SREP as shown below:

Capital Adequacy Ratio (%)	**31 December 2018 (transitional basis IFRS 9)[1]**	**31 December 2018 (fully loaded basis IFRS 9)[1, 7]**	**Pro forma with capital raise (transitional basis IFRS 9)[1, 9]**	**Minimum regulatory capital requirements (Phase-in) 2019[5]**
Capital Adequacy Ratio (%)	18,53%	18%	21,65%	14,075%
Tier 1 Ratio (%)	18,53%	18%	21,65%	12,075%
Common Equity Tier 1 (CET 1) Ratio (%)	15,82%	15,26%	18,95%	10,575%

51.6.2.2 Liquidity and Leverage Ratio Requirements

CRR sets forth the guidelines for calculating liquidity measures such as the Liquidity Coverage Requirement Ratio (LCR) and the Net Stable Funding Ratio (NSFR). LCR is calculated as the sum of high quality liquid assets over the expected net liquidity outflows during the next 30 days, as these net outflows are specified under a stress scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Group was at 565% as at 31 December 2018 compared to 277% as at 31 December 2017.

NSFR is defined as the amount of available stable funding (the portion of capital and liabilities expected to be reliable over the one year horizon) over the amount of required stable funding (based on the liquidity characteristics and residual maturities of the various assets held and off balance sheet exposures). The ratio has a one year horizon and should be at least 100%. The NSFR of the Group was at 210% as at 31 December 2018 compared to 158% as at 31 December 2017.

Additionally, Pillar I sets forth the guidelines for calculating the leverage ratio as an institution's capital measure divided by the institution's total exposure measure expressed as a percentage.

The leverage ratio of the Group is calculated using two capital measures:
(a) Tier 1 capital: fully phased-in definition
(b) Tier 1 capital: transitional definition

According to the Regulation No.2015/62 of the European Parliament and Council dated 10 October 2014, as at 31 December 2018 the Leverage Ratio for the Group was 5,42% (Bank: 5,40%) compared to 8,57% as at 31 December 20172. The Leverage Ratio on a fully loaded basis for the Group was formed at 5,20% (Bank: 5,19%) compared to 8,09% (Bank: 8,09%) as at 31 December 20172 (fully loaded basis under IAS 39 Group: 8,56%, Bank: 8,54%).

NOTES TO THE FINANCIAL STATEMENTS
51 2018 EU-WIDE STRESS TEST (CONTINUED)
51.6. CAPITAL MANAGEMENT (CONTINUED)

Even before its full implementation which is expected to be sometime in 2019, and as per relevant CBC instructions, the Net Stable Funding Ratio (NSFR) is being monitored by the Bank and reported quarterly to CBC.

51.6.3 Pillar II – Enhanced supervisory review process for firm-wide risk management and capital planning

Pillar II aims at enhancing the link between an institution's risk profile, risk management, risk mitigation systems and its capital planning. Pillar II is divided into two major components, the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).

The ICAAP is reviewed and evaluated by the Single Supervisory Mechanism (SSM) as part of its SREP, which occurs periodically and contributes to SSM's assessment of capital adequacy and additional own funds requirements.

ICAAP is an integral part within the holistic risk management approach at Hellenic Bank. It is integrated with the Bank's strategic processes, including the Risk Appetite Framework and Business as well as Capital Planning.

During 2018, the Bank conducted the ICAAP to arrive at a forward looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilising internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework.

51.6.4 Pillar III – Enhanced risk disclosure and market discipline

The Pillar III report of the Group sets out both quantitative and qualitative disclosures required in accordance with Part 8 'Disclosures by Institutions' of the Regulation (EU) No 575/2013 and the EBA's final standards on revised Pillar III disclosures issued in December 2016 and LCR disclosures that are applicable from 31 December 2017. EBA Guidelines cover Articles 431 to 455 of the CRR and specify the Pillar III framework requirements.

The report provides additional information to allow market participants to have a full picture of the risk profile of the Group, to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Group.

The Pillar III report is published annually by the Group at the end of April.

52. EVENTS AFTER THE REPORTING PERIOD

Increase of share capital

On the 29 January 2019 the Bank announced that the Cyprus Securities and Exchange Commission had, on 28 January 2019, approved and allowed the publication of a prospectus (the "Prospectus") in relation to a share capital increase through (i) a rights issue of up to €100.031.254,40 (the "Rights Issue") and (ii) a private placement of €50.000.000,40 (the "Private Placement") and the listing on the Cyprus Stock Exchange (the "CSE") of the rights issued pursuant to the Rights Issue (the "Rights") and the new ordinary shares to be issued by the Bank with nominal value of €0,50 each (the "New Ordinary Shares") pursuant to the exercise of the Rights and the Private Placement (the "Share Capital Increase") as approved by the Bank's shareholders at an extraordinary general meeting on 22 August 2018.

The Board of Directors, in its meeting on 14 March 2019,examined and approved the allocation of 113.340.432 new ordinary shares of nominal value of €0,50 each ("New Ordinary Shares") to 2.209 shareholders that exercised 157.418.575 Rights in total, during the Rights Exercise Period, raising €79.338.302,40 of shareholders' equity. As per the Prospectus and in line with the subscription agreement with Demetra Investment Public Ltd ("Demetra"), the Board allocated the remaining 29.561.360 New Ordinary Shares in relation to unexercised Rights to Demetra, raising an additional €20.692.952,00 of shareholders' equity. As per the Prospectus and in line with the private placement agreement with Poppy Sarl, a company owned by investment funds controlled by Pacific Investment Management Company LLC or a related company, (the "Private Placement"), the Board allocated 71.428.572 New Ordinary Shares at a price of €0,70 per New Ordinary Share to Poppy Sarl for a total consideration of €50.000.000,40, subject to the satisfaction of conditions precedent. It is noted that Poppy Sarl has obtained the relevant regulatory approval for its investment in the Bank.

As a result of the Rights Issue, the allocation of the unsubscribed shares to Demetra and the Private Placement, the number of issued and fully paid ordinary shares of nominal value of €0,50 each increased from 198.474.712 to 412.805.076.

The New Ordinary Shares arising from the Share Capital Increase, totaling 214.330.364, were listed on the CSE on 28 March 2019.

Prospective disposal of NPE portfolio

During the first half of 2019 the Bank has embarked on a preparation phase to review the feasibility of different NPE reduction structures with the aim of identifying the option that best meets the Bank's strategic objectives. The preparation phase will involve definition of the NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and in order to conclude on the best possible structure, the Bank will engage international advisors, and is proceeding to engage in high level discussions via the signing of confidentiality agreements with various third parties that may be interested in pursuing a possible collaboration with the Bank. Such third parties include investment banks and financial investors.

DECLARATION BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE BANK OFFICIALS RESPONSIBLE FOR THE DRAFTING OF THE FINANCIAL STATEMENTS

In accordance with article 9(3)(c) and (7) of the 2007 Law (L190(i)/2007) on Transparency Requirements (Securities Listed for Trading on a Regulated Market), we the Members of the Board of Directors and the Bank officials responsible for the drafting of the Financial Statements of Hellenic Bank Public Company Ltd (the Bank) for the year ended 31 December 2018, confirm that to the best of our knowledge:

(d) the annual Financial Statements presented in pages 22 to 184
 (i) have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and the provisions of article (9), paragraph (4) of the Cyprus Companies Law, and
 (ii) give a true and fair view of the assets and liabilities, the financial position and the profits or losses of Hellenic Bank Public Company ltd and of the entities included in the Consolidated Financial Statements, as a whole and

(a) the Management Report provides a fair review of the developments and performance of the business as well as the position of Hellenic Bank Public Company Ltd and of the entities included in the Interim Consolidated Financial Statements, as a whole, together with a description of the major risks and uncertainties that they face.

Members of the Board of Directors:

Youssef A. Nasr	Non-Executive Chairman of the Board
Marinos S. Yannopoulos	Non-Executive Vice Chairman
Dr Evripides A. Polykarpou	Non-Executive Member of the Board
Irena A. Georgiadou	Non-Executive Member of the Board
Marianna Pantelidou Neophytou	Non-Executive Member of the Board
David Whalen Bonanno	Non-Executive Member of the Board
Christodoulos A. Hadjistavris	Non-Executive Member of the Board
Andreas Christofides	Non-Executive Member of the Board
Andrew Charles Wynn	Non-Executive Member of the Board
Stephen John Albutt	Non-Executive Member of the Board
Demetris Efstathiou	Non-Executive Member of the Board
Ioannis A. Matsis	Executive Member of the Board
Lars Kramer	Executive Member of the Board

Company official responsiblefor the drafting of the Financial Statements

Lars Kramer, Chief Financial Officer ______________________

Nicosia, 24 April 2019

DEFINITIONS OF ALTERNATIVE PERFORMANCE INDICATORS

Net interest margin
Net interest income on interest-bearing assets (annualised basis). Interest bearing asset consist of cash and balances with Central Banks, placements with other banks, loans and advances to customers and investments in debt securities.

Cost to Income ratio
Total expenses to total net income

Cost of risk ratio
Impairment losses (excluding any modification gain/losses, any APS claims and reversals of fair value of purchased credit impaired facilities) on the value of loans and advances divided by gross loans at the end of the period (annualised)

Net loans to deposits ratio
Net loans granted to customers to deposits and other customer accounts

NPEs to gross loans ratio
Gross non-performing exposures (EBA definition) divided by total loans and advances

NPE provision coverage ratio
Accumulated impairment losses divided by gross non-performing exposures

Net NPEs collateral coverage ratio
NPEs collateral (Based on open market values - capped at client exposure) divided by NPEs net of accumulated impairment losses

BOARD OF DIRECTORS OF THE GROUP'S MAIN SUBSIDIARY COMPANIES

HELLENIC BANK TRUST & FINANCE CORPORATION LTD

Marios P. Christoforides

Marinos Athanassiades

Christiana Konomou, Secretary

PANCYPRIAN INSURANCE LTD

Phivos Stasopoulos, Chairman

George Iacovou

(Resigned on 12 April 2019)

Christodoulos A. Hadjistavris

Marios M. Michaelides

Socrates Demetriou

Petros Arsalides

Kyriacos Kyriakides

(Resigned on 1 February 2018)

Adamos Savvides

Demetris Sparsis

(Resigned on 17 April 2018)

Kyriacos Volis, Secretary

HELLENIC ALICO LIFE INSURANCE COMPANY LTD

Phivos Stasopoulos, Chairman

Mario Francisco Valdes Velasco, Vice-Chairman

Antonios I. Karpasitis

Adamos Savvides

Demetrios Efstathiou

Andreas Papadatos

Maria H. Vovides, Secretary

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GROUP OFFICES AND BRANCH NETWORK

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SHAREHOLDER INFORMATION

The Shareholders may contact the Shares & Bonds Registry Department for matters relating to the Company's registered securities, certificates, interest on Bonds and Capital Securities.

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INVESTOR RELATIONS

Institutional investors, brokers, investment houses and other investment analysts may direct their enquiries relating to recent developments, financial results and the strategy of the Group to the Investor Relations Department.

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ABBREVIATIONS

ALCO	Assets and Liabilities Management Committee
AML	Anti-Money Laundering
API	Application Programming Interface
ATHEXCSD	Hellenic Central Securities Depository
ATM	Automated Teller Machine
AUM	Assets Under Management
B2B	Business-to-Business
BAU	Business Advisory Unit
BRMC	Board Risk Management Committee
CCB	Corporate Cyprus Bank
CIFA	Cyprus Investment Funds Association
CRD	Capital Requirements Directives
CRS	Common Reporting Standard
CTF	Counterterrorist Financing
CySEC	Cyprus Securities and Exchange Commission
D2A	Debt to asset
DCC	Dynamic Currency Conversion
DPO	Data Protection Office
EBA	European Banking Authority
ECB	European Central Bank
ERP	Enterprise Resource Planning
FATCA	U.S. Foreign Account Tax Compliance Act
FX	Foreign Exchange
GDPR	General Data Protection Regulation
HAL	Hellenic Alico Life
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standards
ILAAP	Bank Internal Liquidity Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
KYC	Know Your Customer practice
NPL	Non-Performing Loan
PPI	Property Price Index
REO	Real Estate Own
RWA	Risk Weighted Assets
SME's	Medium-Sized Enterprises
SPV	Special Purpose Vehicle

HELLENIC BANK