EUROBANK CYPRUS LTD

Report and
Financial Statements

For the year ended 31 December 2018

Eurobank Cyprus Ltd

Report and financial statements for the year ended 31 December 2018

Contents

Eurobank Cyprus Ltd

Board of Directors and Other Officers

Board of Directors

R. Kyprianou	Chairman, Non Executive
N. Karamouzis	Vice Chairman, Non Executive
M. Zampelas	Vice Chairman, Non Executive (resigned on 27 December 2018)
M. Louis	Executive
D. Shacallis	Executive
M. Colakides	Non Executive
L. Demosthenous	Non Executive
O. Ellingham	Non Executive
A. Soteriou	Non Executive
S. Ioannou	Non Executive
T. Phidia	Non Executive
C. Kitti	Non Executive (appointed on 1 December 2018)

Executive Committee

M. Louis
D. Shacallis
C. Hambakis
A. Petsas
A. Malliotis
A. Antoniou
S. Kassianides
D. Eliades
N. Panayi
M. Hadjikyriakos

Company Secretary

D. Shacallis

Registered office

41 Arch. Makariou III Avenue
5th floor
CY-1065 Nicosia
Cyprus

Eurobank Cyprus Ltd

Management Report

The Board of Directors presents its report together with the audited financial statements of Eurobank Cyprus Ltd (the "Bank") for the year ended 31 December 2018.

Principal activity

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

Branches

The Bank did not operate through any branches outside Cyprus during the year.

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

The main financial highlights for the year are as follows:

	2018	2017
	€'000	€'000
Operating income	**94.460**	96.861
Operating expenses including impairment losses	**39.405**	45.307
Profit before tax and government levies	**55.055**	51.554
Profit for the year	**42.458**	41.137
Customer deposits	**4.839.981**	4.265.178
Loans and advances to customers	**2.149.942**	1.895.345
Total assets	**5.841.644**	5.288.532
Equity	**444.711**	409.858
	%	%
Cost/income	**30,4**	30,4
Return on equity	**9,9**	9,5
Net loans/deposits	**44,4**	44,4
Cost of risk	**0,5**	0,8
NPE provisions coverage	**62,0**	72,4
Credit-impaired loans/gross loans	**4,1**	5,0
Capital adequacy ratio (all CET 1)	**24,5**	26,6
Leverage ratio	**10,0**	11,8

The Bank's profit for the year reached €42,5 million reporting 3% increase in comparison to 2017.

This result is attributed mainly to healthy net interest income being a result of effective liquidity and deposit cost management. Commission income remained at 2017 levels and operating expenses were marginally lower.

Cost/income ratio has been maintained at 30,4% with return on equity at almost 10% reporting an increase from 2017 of 9,5%.

Management Report (continued)

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

The credit-impaired loans/gross loans ratio has dropped to 4,1% from 5,0% in 2017 with NPE provisions coverage maintained at a high level of 62%.

Net interest income increased by approximately €2,5 million (or 4%) in comparison to 2017, as a result of effective utilisation of excess liquidity, increased lending, investment in securities, derivatives and management of the cost of deposits.

Fee and commission income was marginally below that of 2017, mainly affected by the Bank's decision to continue the various de-risking activities leading to a reduction in the volume of business from various jurisdictions which in turn affected the related commission income. All other commission income streams comprising of transactional activities, trade finance, wealth management, credit related commissions and commissions from cards have recorded increases compared to 2017.

Customer deposits recorded a significant increase of €575 million (or 13%) vs 2017 in all main pillars of the Bank.

Loans & advances to customers reported an increase of €255 million (or 13%) vs 2017 despite the competitive environment especially in the area of loan pricing. The Bank continues to maintain a selective credit expansion policy as demonstrated by the low ratio on credit-impaired loans.

The financial position, development and performance of the Bank as presented in these financial statements are considered satisfactory.

Business outlook and risks

The Bank considers risk management to be a major process and a major factor contributing to the stability of the Bank's performance.

Operating environment of Cyprus

The year 2018 ended with the Cyprus economy continuing to record positive growth for the sixteenth consecutive quarter with real Gross Domestic Product ('GDP') increasing at an annual rate of 3,9%. The recovery has been broad-based and has lead to the reduction of unemployment in all major sectors. Overall, the economy has entered in a consistent expansion phase characterised by above average growth rates compared to the rest of the Eurozone countries. In absolute terms, the value of all goods and services produced domestically at constant prices, i.e. real GDP reached €20,3 billion at the end of 2018. Correspondingly, nominal GDP which measures the value of all goods and services produced domestically at current prices, reached €20,7 billion, up from €19,6 billion in the previous year.

Management Report (continued)

Business outlook and risks (continued)

The encouraging element or factor of the new growth phase of the economy is that fundamentals are not driven by public spending and its related multiplicative effects, nor through unsustainable credit-fueled consumption as observed in the pre-crisis period. Growth continues to be driven by the sectors of tourism and private consumption, while recording very positive performances in, manufacturing and construction, shipping and private education.

During the year the Government budget recorded a surplus of €512 million or 2,50% of GDP. Total revenue recorded an increase of 5,5% to €7,6 billion while total expenditure increased by 2,3% to €6,9 billion.

The sale of the Cooperative to Hellenic Bank resulted in a decrease of NPE's in the Banking system by €5,7 billion since the assets were transferred to a Government owned SPV. Combined with the sale of loans worth €2,8 billion by the Bank of Cyprus, overall NPE's in the system fell to €11,3 billion in November 2018 from €21 billion at the beginning of the year. Despite the significant increase in the public debt as a result of the sale of the Cooperative, the actions to tackle the NPE's were assessed positively by S&P, Fitch and DBRS and were cited as the main developments that warranted the upgrade of the sovereign debt to investment grade.

Taking advantage of the stable market backdrop and following the rating upgrades in October 2018, the Republic of Cyprus tapped the international capital markets in February 2019 with the issuance of a 15-year bond for €1 billion at a yield of 2,75%. Since then and supported by secondary market demand underpinned by the continuing purchases by the Central Bank of Cyprus within the framework of the ECB's rollover activity, government bond yields have declined to historically low levels. These developments encourage the government to expedite the implementation of their liability management strategy which includes the early repayment of high cost liabilities through market refinancing at record low cost and for extended maturities.

The Bank continues to believe that the business environment and projected economic growth will be conducive to business growth. The Bank envisages to progress through the successful implementation of the existing operating model while recognising and addressing the emergence of new opportunities.

Going concern assessment

Taking into consideration the above factors as well as the Bank's capital and liquidity position, the Board of Directors is satisfied that the financial statements of the Bank are prepared on a going concern basis.

Financial risk management

The Bank is exposed to risks, the most significant of which are credit risk, liquidity risk, and market risk. The Bank monitors, manages and mitigates these risks through various control mechanisms. Detailed information relating to the Bank's risk management is set out in note 4 of the financial statements.

Management Report (continued)

Future developments of the Bank

The Bank currently operates through a network of 8 Banking Centres in Nicosia, Limassol, Larnaca, Paphos and Famagusta. The Bank will continue to strengthen its operations investing in human capital, information technology and processes and procedures in various areas.

Results

The Bank's results for the year are set out on pages 12 and 13.

Net profit for the year ended 31 December 2018 is retained. The Board of Directors will consider during 2019 the payment of a dividend.

A dividend of €50 million was paid in 2017.

Share capital

There were no changes in the Bank's share capital during the year ended 31 December 2018.

Board of Directors

The members of the Board of Directors of the Bank as at 31 December 2018 and at the date of this report are shown on page 1. All of them were members of the Board throughout the year 2018 and up to the date of this report except from Ms. Cleopatra Kitti who was appointed on the Board of Directors of the Bank on 1 December 2018 and Mr. Michalakis Zampelas who resigned on 27 December 2018.

There were no significant changes in the distribution of responsibilities or compensation of the Board of Directors.

Bank Management

The Bank's Executive Committee as at 31 December 2018 and at the date of this report is shown on page 1.

Events after the balance sheet date

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

Eurobank Cyprus Ltd

Management Report (continued)

Auditors

The Independent Auditors, KPMG Limited, have expressed their willingness to continue in office.

By Order of the Board of Directors

Michalis Louis
Chief Executive Officer

Nicosia, 18 April 2019

KPMG Limited
Chartered Accountants
14 Esperidon Street, 1087 Nicosia, Cyprus
P.O. Box 21121, 1502 Nicosia, Cyprus
T: +357 22 209000, F: +357 22 678200

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

EUROBANK CYPRUS LTD

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of parent company Eurobank Cyprus Ltd (the "Bank"), which are presented on pages 12 to 152 and comprise the balance sheet as at 31 December 2018, the income statement, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2018, and of its financial performance and its 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 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 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.

Limassol
P.O. Box 50161, 3601
T: +357 25 869000
F: +357 25 363842

Larnaca
P.O. Box 40075, 6300
T: +357 24 200000
F: +357 24 200200

Paphos
P.O. Box 60288, 8101
T: +357 26 943050
F: +357 26 943062

Paralimni / Ayia Napa
P.O. Box 33200, 5311
T: +357 23 820080
F: +357 23 820084

Polis Chrysochous
P.O. Box 66014, 8330
T: +357 26 322098
F: +357 26 322722

Report on the audit of the financial statements (continued)

Key audit matters

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

Impairment of loans and advances to customers	
Refer to notes 2.3.2, 3.1, 4.2.1.3 and 17 to the financial statements.	
The key audit matter	**How the matter was addressed in our audit**
On 1 January 2018, the new accounting standard for financial instruments (IFRS 9) became effective, which introduced impairment based on expected credit losses, rather than the incurred loss model previously applied under IAS 39. At 31 December 2018 the Bank reported total gross loans of €2.193.771 thousand and €55.426 thousand of expected credit losses. Key judgments and estimates in respect of the timing and measurement of expected credit losses ("ECL") include: ▪ Allocation of loans and advances to customers to stages 1, 2, or 3 using criteria in accordance with the relevant accounting standard; ▪ Accounting interpretations, modelling assumptions and estimations used to build the models that calculate ECL, including the determination of Probabilities of Default ('PD') which is considered the most significant judgemental aspect of the Bank's ECL modelling approach; ▪ Inputs and assumptions used to estimate the impact of multiple economic scenarios, along with the weighted- probabilities used; ▪ Measurements of individually assessed impairments; and ▪ Adequacy and appropriateness of the financial statement disclosures.	Our audit procedures in this area included, among others: Selecting a sample of loans and advances to customers in stages 1 and 2 to assess the reasonableness of credit rating assigned and therefore determine the appropriateness of stage allocation within all three stages (stages 1, 2, and 3). For stage 1 and stage 2, assets with the support of our internal credit modelling specialists, we have: ▪ Inspected and assessed the model documentation and methodology for compliance with IFRS 9 and market practice. ▪ Tested the key assumptions, inputs and mathematical theory used in ECL model. This included assessing the mathematical theory of the model used, through testing that the methodology applied was appropriate including where relevant the mathematical integrity and statistical robustness of the model. ▪ Performed risk based substantive testing of models, including independently re-building certain assumptions and compared the calculated amount with the recognised amount. ▪ Performed reconciliations between the bases used to calculate ECL and the accounting data including the testing of the flow and transformation of data between source systems to the impairment calculation engine. ▪ For the critical data used in the year end ECL calculation, accuracy was tested by reconciling to source documents. For stage 3 assets, with the support of our internal valuation specialists, we performed credit assessment on a sample of loans and advances to customers, assessing the appropriateness of impairment loss allowance. This includes, assessment of the main assumptions used to assess the expected recovery flows, in particular with regard to valuing collateral. We assessed the adequacy and appropriateness of disclosures for compliance with the relevant accounting standards including disclosure of transition to IFRS 9.

Report on the audit of the financial statements (continued)

Other information

The Board of Directors is responsible for the other information. The other information comprises the management report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With regards to the management report, our report in this regard is presented in the "*Report on other legal and regulatory requirements*" section.

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

The Board of Directors is responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless 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 Bank's financial reporting process.

Auditors' responsibilities for the audit of the financial statements

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

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements **(continued)**

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

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

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

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

Report on other regulatory and legal and requirements

Other regulatory requirements

Pursuant to the requirements of Article 10(2) of European Union (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 appointment and period of engagement

We were first appointed auditors of the Bank on 6 July 2018 by the Annual General Meeting of the Bank's members to audit the financial statements of the Bank for the year ended 31 December 2018.

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 18 April 2019.

Report on other regulatory and legal and requirements (continued)

***Other regulatory requirements* (continued)**

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 L.53(I)/2017").

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:

- 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 financial statements.
- In the light of the knowledge and understanding of the business and the Bank's environment obtained in the course of the audit, we have not identified material misstatements in the management report.

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.

Comparative figures

The financial statements of the Bank for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 April 2018.

The engagement partner on the audit resulting in this independent auditors' report is Constantinos N. Kallis.

Constantinos N. Kallis, 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

18 April 2019

Eurobank Cyprus Ltd

Income Statement
for the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Interest income	5	**113.308**	105.689
Interest expense	5	**(43.617)**	(38.440)
Net interest income		**69.691**	67.249
Banking fee and commission income	6	**27.244**	27.794
Banking fee and commission expense	6	**(6.867)**	(7.120)
Net banking fee and commission income		**20.377**	20.674
Net trading income	7	**122**	56
Net gains from investment securities	8	**1.966**	8.828
Other income	9	**2.304**	54
Net other operating income		**4.392**	8.938
Operating income		**94.460**	96.861
Staff costs	10	**(16.688)**	(16.891)
Other operating expenses	11	**(12.061)**	(12.616)
Profit from operations before impairments		**65.711**	67.354
Impairment losses on loans and advances and credit related commitments and contingent liabilities	4.2.1.3	**(10.316)**	(15.800)
Other impairment losses and provisions	12	**(340)**	-
Profit before tax and government levies		**55.055**	51.554
Government levy on customer deposits	24	**(5.343)**	(4.924)
Income tax expense	13	**(7.254)**	(5.493)
Profit for the year		**42.458**	41.137

The notes on pages 17 to 152 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Comprehensive Income for the year ended 31 December 2018

	2018 €'000	2018 €'000	2017 €'000	2017 €'000
Profit for the year		**42.458**		41.137
Other comprehensive income:				
Items that may be subsequently reclassified to income statement:				
Debt securities at FVOCI (note 18)				
- net changes in fair value, net of tax	**(5.273)**			
- reclassified to income statement, net of tax	**(2.390)**	**(7.663)**		
Available-for-sale financial assets (note 18)				
- net changes in fair value, net of tax	**-**		10.211	
- reclassified to income statement, net of tax	**-**	**-**	(946)	
				9.265
Other comprehensive income for the year, net of tax		**(7.663)**		9.265
Total comprehensive income for the year		**34.795**		50.402

The notes on pages 17 to 152 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Balance Sheet
at 31 December 2018

	Note	**2018** **€'000**	2017 €'000
Assets			
Cash and balances with central banks	14	**767.279**	505.904
Due from credit institutions	15	**2.153.994**	2.337.755
Derivative financial instruments	16	**3.904**	811
Loans and advances to customers	17	**2.149.942**	1.895.345
Investment securities	18	**754.864**	536.337
Investments in subsidiaries	19	**4**	4
Property, plant and equipment	20	**6.987**	6.820
Intangible assets	21	**3.500**	3.669
Other assets	22	**1.170**	1.887
Total assets		**5.841.644**	5.288.532
Liabilities			
Due to credit institutions	23	**508.354**	560.463
Derivative financial instruments	16	**900**	5.236
Due to customers	24	**4.839.981**	4.265.178
Other liabilities	25	**47.698**	47.797
Total liabilities		**5.396.933**	4.878.674
Equity			
Share capital	26	**12.010**	12.010
Share premium	26	**245.384**	245.384
Other reserves	18	**9.998**	16.215
Retained earnings		**177.319**	136.249
Total equity		**444.711**	409.858
Total equity and liabilities		**5.841.644**	5.288.532

On 18 April 2019 the Board of Directors of Eurobank Cyprus Ltd authorised the issuance of these financial statements.

Robert Kyprianou, Chairman of the Board of Directors

Michalis Louis, Chief Executive Officer

Demetris Shacallis, Chief Financial Officer

The notes on pages 17 to 152 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Statement of Changes in Equity
for the year ended 31 December 2018

	Share capital €'000	Share premium €'000	Fair value reserve €'000	Retained earnings €'000	**Total equity €'000**
Balance at 1 January 2017	**12.010**	**245.384**	**6.950**	**145.112**	**409.456**
Profit for the year	-	-	-	41.137	**41.137**
Other comprehensive income for the year	-	-	9.265	-	**9.265**
Total comprehensive income for the year	**-**	**-**	**9.265**	**41.137**	**50.402**
Dividend paid (note 26)	-	-	-	(50.000)	**(50.000)**
Total contributions and distributions	**-**	**-**	**-**	**(50.000)**	**(50.000)**
Balance at 31 December 2017	**12.010**	**245.384**	**16.215**	**136.249**	**409.858**
Balance at 1 January 2018	**12.010**	**245.384**	**16.215**	**136.249**	**409.858**
Impact of adopting IFRS 9 at 1 January 2018 (note 2.3)	-	-	1.446	(1.388)	**58**
Balance at 1 January 2018, as restated	**12.010**	**245.384**	**17.661**	**134.861**	**409.916**
Profit for the year	-	-	-	42.458	**42.458**
Other comprehensive income for the year	-	-	(7.663)	-	**(7.663)**
Total comprehensive income for the year	**-**	**-**	**(7.663)**	**42.458**	**34.795**
Balance at 31 December 2018	**12.010**	**245.384**	**9.998**	**177.319**	**444.711**

The notes on pages 17 to 152 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Cash Flow Statement
for the year ended 31 December 2018

	Note	2018 €'000	2017 €'000
Cash flows from operating activities			
Profit before tax and government levies		**55.055**	51.554
Adjustments for:			
Amortisation of intangible assets	21	**1.019**	850
Depreciation of property, plant and equipment	20	**1.424**	1.530
Loss on disposal of property, plant and equipment	20	**6**	3
Impairment allowance on loans and advances to customers	4.2.1.3	**10.171**	15.800
Reversal of impairment allowance on investment securities	18	**(203)**	-
Impairment allowance on balances with central banks	14	**8**	-
Impairment allowance on due from credit institutions	15	**94**	-
Impairment allowance for expected credit losses on credit related commitments and contingent liabilities	4.2.1.3	**394**	-
Interest income on investment securities	5	**(20.023)**	(19.899)
Foreign exchange differences on investing activities	18	**(11.082)**	11.647
Foreign exchange differences on impairment allowance on loans and advances to customers	4.2.1.3	**21**	(45)
Profit on disposal of investments in subsidiaries	19	**(2.176)**	(48)
Net gains on disposal of investment securities at FVOCI	8	**(2.009)**	-
Net losses on revaluation of investment securities at FVTPL	8	**43**	-
Net gains on redemptions of held-to-maturity investments	8	**-**	(7.884)
Net gains on disposal of available-for-sale financial assets	8	**-**	(944)
		32.742	52.564
Changes in operating assets and liabilities			
Net increase in cash and balances with central banks		**(3.675)**	(6.459)
Net decrease in due from credit institutions		**(274)**	60.000
Net (increase)/decrease in derivative financial instruments		**(7.622)**	13.495
Net increase in loans and advances to customers		**(264.047)**	(93.635)
Net decrease/(increase) in other assets		**746**	(1.190)
Net (decrease)/increase in due to credit institutions		**(52.109)**	38.104
Net increase in due to customers		**574.554**	356.916
Net (decrease)/increase in other liabilities		**(1.128)**	10.373
		246.445	430.168
Government levy on customer deposits paid		**(5.343)**	(4.924)
Income tax paid		**(6.647)**	(5.852)
Net cash flows from operating activities (1)		**267.197**	419.392
Cash flows from investing activities			
Investments in subsidiaries	19	**(2)**	(4)
Proceeds from sale of investments in subsidiaries	19	**2.178**	49
Purchases of intangible assets	21	**(850)**	(1.734)
Purchases of property, plant and equipment	20	**(1.597)**	(1.090)
Proceeds from sale of property, plant and equipment	20	**-**	7
Proceeds from disposals, maturities and redemptions of investment securities		**139.382**	231.134
Payments for acquisition of investment securities	18	**(352.586)**	(189.689)
Interest received on investment securities		**19.990**	22.214
Net cash flows (used in)/from investing activities		**(193.485)**	60.887
Cash flows from financing activities			
Payment of dividend	26	**-**	(50.000)
Net cash flows used in financing activities		**-**	(50.000)
Net increase in cash and cash equivalents		**73.712**	430.279
Cash and cash equivalents at beginning of year	30	**2.797.563**	2.367.284
Cash and cash equivalents at end of year	30	**2.871.275**	2.797.563

Note:
(1) Includes interest received of €104.033 thousand (2017: €98.139 thousand) and interest paid of €43.683 thousand (2017: €37.425 thousand).

The notes on pages 17 to 152 form an integral part of these financial statements.

Eurobank Cyprus Ltd

Notes to the financial statements

1 General information

Country of incorporation

Eurobank Cyprus Ltd ("the Bank") is a company domiciled and incorporated in Cyprus as a private limited liability company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its registered office and business address is at 41 Arch. Makariou III Avenue, 5th floor, 1065 Nicosia, Cyprus.

Principal activity

The principal activity of the Bank, which is unchanged from last year, is the provision of banking and financial services.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented in these financial statements except for the adoption of new and amended standards and interpretations as explained in notes 2.1.1, 2.2 and 2.3 below.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union (EU), and in particular with those IFRSs and IFRS Interpretation Committee's interpretations, issued and effective for annual periods beginning on 1 January 2018. The financial statements of the Bank have also been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113.

The financial statements have been prepared under the historical cost convention, except for the revaluation of available-for-sale financial assets (applicable before 1 January 2018), the financial assets measured at fair value through other comprehensive income (applicable from 1 January 2018), financial assets and financial liabilities (including derivative instruments) measured at fair value through profit or loss and, recognised financial assets and financial liabilities designated as hedged items in qualifying fair value hedging relationships measured at amortised cost adjusted for hedging gain or loss.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

These separate financial statements contain information about Eurobank Cyprus Ltd as an individual company and do not contain consolidated financial information as the parent of a group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

The Bank is not required by the Cyprus Companies Law, Cap. 113, to prepare consolidated financial statements because the ultimate parent company, Eurobank Ergasias S.A., publishes consolidated financial statements in accordance with Generally Accepted Accounting Principles in Greece and the Bank does not intend to issue consolidated financial statements for the year ended 31 December 2018.

The European Commission has concluded that since parent companies are required by the EU Accounting (2013/34/EU) Directive to prepare separate financial statements and since the Cyprus Companies Law, Cap. 113, requires the preparation of such financial statements in accordance with IFRS as adopted by the EU, the provisions in IFRS 10 'Consolidated Financial Statements' requiring the preparation of consolidated financial statements in accordance with IFRS do not apply. The consolidated financial statements of Eurobank Ergasias S.A.'s are available at its website (www.eurobank.gr).

The Bank's presentation currency is the Euro (€) being its functional currency. Except as indicated, financial information presented in Euro has been rounded to the nearest thousand.

Going concern:

The annual financial statements have been prepared on a going concern basis, as the Board of Directors considered as appropriate, taking into consideration the following:

a) Macroeconomic environment and solvency risk of the Group

Macroeconomic environment
Greece's real GDP grew by 1,9% in 2018 from 1,5% in 2017, according to the Hellenic Statistical Authority's (ELSTAT) first estimate, while the real GDP growth consensus forecast for 2019 stands at 1,9% (compared to an official target of 2,5%). The unemployment rate in December 2018 was at 18,0%, based on the ELSTAT's data (31 December 2017: 20,8%). On the fiscal front, Greece's primary balance is expected to register a surplus of 4,0% of GDP in 2018 according to 2019 Budget, (2017: 3,9% of GDP, according to ELSTAT's data) while the respective forecast for 2019 is expected at 3,6% of GDP.

The Greek Government has built up a cash buffer of €26,5 billion until the end of September 2018, out of the European Stability Mechanism (ESM) loan disbursements, Greek Government Bonds (GGBs) issuances and other sources, in order to facilitate the country's access to the international markets. This buffer suffices for covering the gross financial needs for two years after the end of the program or four years assuming that the current stock of treasury bills will be rolled over. On the back of this environment, Greek sovereign demonstrated market access as evidenced by the successful issuance of a 5-year bond of €2,5 billion at a yield of 3,6% on 29 January 2019 and a 10-year reference bond of €2,5 billion at a yield of 3,9% on 6 March 2019.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

a) *Macroeconomic environment and solvency risk of the Group (continued)*

Solvency risk
On 5 May 2018, the ECB announced the results of the Stress Test (ST) for the four Greek systemic banks, including Eurobank. Based on feedback received by the Single Supervisory Mechanism (SSM), the ST outcome pointed to no capital shortfall and no capital plan needed for the Bank as a result of the exercise.

The Group's Common Equity Tier 1 (CET1) ratio stood at 14,2% at 31 December 2018, and the net profit attributable to shareholders amounted to €91 million (€200 million net profit from continuing operations before €44 million restructuring costs, after tax) for the year ended 31 December 2018.

Going forward, the prime target is the successful execution of the Bank's transformation plan consisting of a) the completion of the merger with Grivalia by May 2019 that will enhance Eurobank's capital position and its earning capacity, b) the acceleration of the NPE reduction plan through a large scale securitisation of approximately €7 billion, the entry of a strategic investor into the capital of Financial Planning Services S.A. (FPS), the licensed 100%-owned loan servicer of Eurobank and other initiatives leading the Group's NPE ratio at 16% in 2019 and a single digit by 2021 and c) the achievement of a substantially lower cost of risk as of 2020, which is expected to drive strong sustainable earnings per share (EPS).

b) *The Cyprus economy*

The year 2018 ended with the Cyprus economy continuing to record positive growth for the sixteenth consecutive quarter with real Gross Domestic Product (GDP) increasing at an annual rate of 3,9%. The recovery has been broad-based and has lead to the reduction of unemployment in all major sectors. Overall, the economy has entered a consistent expansion phase characterised by above average growth rates compared to the rest of the Eurozone countries. In absolute terms, the value of all goods and services produced domestically at constant prices, i.e. real GDP reached €20,3 billion at the end of 2018. Correspondingly, nominal GDP which measures the value of all goods and services produced domestically at current prices, reached €20,7 billion, up from €19,6 billion in the previous year.

The encouraging element or factor of the new growth phase of the economy is that fundamentals are not driven by public spending and its related multiplicative effects, nor through unsustainable credit-fueled consumption as observed in the pre-crisis period. Growth continues to be driven by the sectors of tourism and private consumption, while recording very positive performances in, manufacturing and construction, shipping and private education.

During the year the Government budget recorded a surplus of €512 million or 2,50% of GDP. Total revenue recorded an increase of 5,5% to €7,6 billion while total expenditure increased by 2,3% to €6,9 billion.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued):

b) The Cyprus economy (continued)

The sale of the Cooperative to Hellenic Bank resulted in a decrease of NPE's in the Banking system by €5,7 billion since the assets were transferred to a Government owned SPV. Combined with the sale of loans worth €2,8 billion by the Bank of Cyprus, overall NPE's in the system fell to €11,3 billion in November 2018 from €21 billion at the beginning of the year. Despite the significant increase in the public debt as a result of the sale of the Cooperative, the actions to tackle the NPE's were assessed positively by S&P, Fitch and DBRS and were cited as the main developments that warranted the upgrade of the sovereign debt to investment grade.

Taking advantage of the stable market backdrop and following the rating upgrades in October 2018, the Republic of Cyprus tapped the international capital markets in February 2019 with the issuance of a 15-year bond for €1 billion at a yield of 2,75%. Since then and supported by secondary market demand underpinned by the continuing purchases by the Central Bank of Cyprus within the framework of the ECB's rollover activity, government bond yields have declined to historically low levels. These developments encourage the government to expedite the implementation of their liability management strategy which includes the early repayment of high cost liabilities through market refinancing at record low cost and for extended maturities.

The Board of Directors continues to believe that the business environment and projected economic growth will be conducive to business growth. The Bank envisages to progress through the successful implementation of the existing operating model while recognising and addressing the emergence of new opportunities.

Going concern assessment

Taking into consideration the above factors as well as the Bank's financial, capital and liquidity position as described in the Management Report, the Board of Directors has been satisfied that the financial statements of the Bank can be prepared on a going concern basis.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations

The Bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on 1 January 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

A number of other new standards are also effective from 1 January 2018 but they do not have an effect on the Bank's financial statements.

(a) Amendments to standards adopted by the Bank

IFRS 9 Financial Instruments
On 1 January 2018, the Bank adopted IFRS 9 'Financial Instruments', which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. The adoption of IFRS 9 in 2018 resulted in changes in accounting policy in two principal areas, classification and measurement of financial assets and liabilities and impairment of financial assets.

Differences arising from the adoption of IFRS 9 have been recognised directly in reserves and retained earnings as of 1 January 2018 and are disclosed in section 2.3. The Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9 and therefore not comparable to the information presented for 2018 under IFRS 9.

Changes in the classification and measurement
IFRS 9 applies a new classification and measurement approach for all types of financial assets that reflects the entity's business model for managing the assets and their contractual cash flow characteristics.

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. Reclassifications between categories are made only in rare circumstances.

For the purpose of the transition to IFRS 9, the Bank carried out a business model assessment across various portfolios for its debt instruments to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed as at the date of initial application i.e. 1 January 2018.

The IAS 39 categories of financial assets (fair value through profit or loss (FVTPL), available-for-sale (AFS), held-to-maturity (HTM) and loans and receivables) have been replaced by:

- Debt instruments measured at amortised cost;
- Debt instruments measured at fair value through other comprehensive income (FVOCI), with gains or losses recycled to income statement on de-recognition;
- Equity instruments at FVOCI, with no recycling of gains or losses to income statement on de-recognition; and
- Financial assets measured at FVTPL.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

IFRS 9 Financial Instruments (continued)
The Bank may at initial recognition, designate a financial asset at FVTPL in order to eliminate or significantly reduce an accounting mismatch.

Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value in Other Comprehensive Income (OCI). This election is made on an investment-by-investment basis.

The IFRS 9 eligibility requirements for applying the fair value option to measure financial liabilities at FVTPL are consistent with those of IAS 39. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to income statement unless such a presentation would create or enlarge an accounting mismatch. The remaining amount of change in fair value is presented in income statement.

Finally, under IFRS 9, embedded derivatives in contracts where the host is a financial asset in the scope of the standard are no longer separated from a host financial asset. Instead, the whole hybrid instrument is classified based on the business model and its contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Bank's classification of its financial assets and liabilities is explained in section 2.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section 2.3.

Changes to the impairment calculation
The adoption of IFRS 9 has changed significantly the Bank's accounting for financial assets' impairment by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach, which requires the use of complex models and significant judgment about future economic conditions and credit behavior. Credit losses are recognised earlier under IFRS 9 compared to IAS 39.

IFRS 9 requires the Bank to record an allowance for credit loss for all financial assets not held at FVTPL, together with certain loan commitments and financial guarantee contracts, which are off-balance sheet items. The new impairment model does not apply to equity instruments. The allowance is based on the ECL calculation of the related probability of default of the debtor in the next twelve months unless there has been a significant increase in credit risk since origination of the exposure, when lifetime ECL is measured. If the financial asset meets the definition of purchased or originated credit-impaired ('POCI'), the allowance is based on the change in the ECL over the life of the asset.

Details of the Bank's impairment policy are disclosed in section 2.2. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in section 2.3.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

IFRS 9 Financial Instruments (continued)

Hedge accounting under IFRS 9
IFRS 9 includes a new general hedge accounting model which aligns hedge accounting more closely with risk management. Under the new model, more hedging strategies may qualify for hedge accounting, new hedge effectiveness requirements apply and discontinuation of hedge accounting will be allowed only under specific circumstances. The IASB currently has a separate project for the accounting of macro hedging activities. Until the above project is completed, entities have an accounting policy choice to continue applying the hedge accounting requirements in IAS 39.

The Bank elected as a policy choice to continue to apply hedge accounting in accordance with IAS 39.

Consequential changes in disclosures (IFRS 7 'Financial Instruments: Disclosures')
Effective from 1 January 2018, due to IFRS 9 transition, these financial statements include transition disclosures, which provide qualitative and quantitative information about the impact from the revised classification and measurement and ECL principles. In addition, these financial statements include the enhanced classification and measurement and impairment disclosures as required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

IFRIC 22 Foreign Currency Transactions and Advance Consideration
IFRIC 22 provides requirements about which exchange rate to use in reporting foreign currency transactions that involve an advance payment or receipt. The interpretation clarifies that in this case, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date of the advance consideration, i.e. when the entity initially recognised the non-monetary asset (prepayment asset) or non-monetary liability (deferred income liability) arising from the advance consideration. If there are multiple payments or receipts in advance, the entity must determine a date of transaction for each payment or receipt.

The adoption of the interpretation had no impact on the Bank's financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(a) Amendments to standards adopted by the Bank (continued)

IFRS 15 Revenue from Contracts with Customers and IFRS 15 Amendments and clarifications
IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognise and replaced existing revenue recognition guidance, including IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programs'.

IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

- Financial instruments and other contractual rights or obligations within the scope of IFRS 9 'Financial Instruments', IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IAS 27 'Separate Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures';
- Lease contracts within the scope of IAS 17 'Leases' (or IFRS 16 'Leases'); and
- Insurance contracts within the scope of IFRS 4 'Insurance Contracts'.

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.

IFRS 15 specifies that revenue should be recognised at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognising revenue for performance obligations as they are satisfied and when the control of a good or service (i.e. the ability to direct the use of and obtain the benefits from them) is obtained by the customer. For services provided over time, such as management fee income earned for asset management services provided and variable performance fee income based on the return of the underlying asset at a particular date, consideration is recognised as the service is provided to the customer provided that it is probable that a significant reversal of consideration will not occur.

IFRS 15 was amended in April 2016 to provide several clarifications, including that in relation to the identification of the performance obligations within a contract, of principal versus agent considerations, applications of control principle.

The adoption of the standard and its amendment and clarifications had no impact on the Bank's financial statements as net interest income, which is a primary revenue stream of the Bank, is not impacted by the adoption of IFRS 15. Furthermore, regarding Bank's revenue from contracts with customers, including fee and commission income, for services provided over time, or transactions executed at point in time, there was no impact or change in their accounting treatment as it is consistent with the Bank's existing accounting policy.

The impact of IFRS 15 was limited to the new disclosure requirements (refer to note 6).

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective for annual periods beginning after 1 January 2018, as they have not yet been endorsed by the European Union or have been endorsed by the European Union but have not been early applied by the Bank. The Bank does not plan to adopt these early. Those that may be relevant to the Bank are set out below:

IFRS 9 Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019)
The amendment changes IFRS 9 requirements in order to allow measurement of a financial asset at amortised cost or at FVOCI, depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination receiving compensation from the other party (negative compensation). Therefore, measurement of these financial assets will be regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendment would probably result in the measurement of these financial assets at FVTPL.

The amendment also confirms the modification accounting of financial liabilities under IFRS 9. In specific, when a financial liability measured at amortised cost is modified without this resulting in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognised in the income statement.

The adoption of the amendment is not expected to impact the Bank's financial statements.

IFRS 16 Leases (effective 1 January 2019)
IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17.

The definition of a lease under IFRS 16 mainly relates to the concept of control. The new standard distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

IFRS 16 provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to control the use of an identified asset for a period of time in exchange for a consideration.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 16 Leases (effective 1 January 2019) (continued)
The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognised at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

Consequently, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short term leases and leases of low value assets. The accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

Transition to IFRS 16
The date of initial application of IFRS 16 for the Bank will be 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 and therefore comparative information will not be restated.

Upon transition, the Bank will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, existing contracts previously classified as service contracts will not be classified as leases under IFRS 16, while the definition set out in IFRS 16 will be applied to all lease contracts entered into or modified on or after 1 January 2019.

Lessee accounting
In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee will recognise right-of-use assets and lease liabilities on the balance sheet, initially measured at the present value of the future lease payments. The Bank intends to apply this initial measurement principle to all leases, except for those with lease term of 12 months or less - making use of the short-term leases and leases of low-value assets exemptions.

Accordingly, in estimating the impact from IFRS 16 adoption, the Bank expects to recognise right-of-use assets of approximately €7.739 thousand and corresponding lease liabilities of €7.620 thousand arising from leases of properties and vehicles (refer to note 27), while no impact is expected on shareholders' equity. The estimated capital impact arising primarily from the increase in risk weighted assets is a reduction of approximately 11 basis points on the Bank's Common Equity Tier 1 ratio. The actual impact of adopting the standard on 1 January 2019 may change because the new accounting policies are subject to change until the Bank presents its first financial statements that include the date of initial application.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 New and amended standards and interpretations (continued)

(b) New standards, amendments to standards and interpretations not yet adopted by the Bank (continued)

IFRS 16 Leases (effective 1 January 2019) (continued)
With regard to subsequent measurement, the Bank, acting as a lessee, will apply the cost model for the measurement of right-of-use asset. Accordingly, the right-of-use asset will be measured at cost less any accumulated depreciation and accumulated impairment losses and adjusted for the remeasurement of the lease liability.

Previously, the Bank recognised operating lease expense on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual base payments and the expense recognised.

On the other hand, interest expense will be recognised on the lease liabilities, while their carrying amount will be reduced to reflect the lease payments made. In case of any reassessments or lease modifications specified, the carrying amount of the lease liabilities will be remeasured to reflect revised lease payments.

Other standards
The following new standards, amendments to existing standards and interpretations are not expected to have a significant impact on the Bank's financial statements:

- IFRIC 23 Uncertainty over Income Tax Treatments (effective 1 January 2019)
- Amendments to IAS 28: Long Term Interests in Associates and Joint Ventures (effective 1 January 2019)
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement (effective 1 January 2019)
- Annual Improvements to IFRSs 2015-2017 Cycle – various standards (effective 1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020, not yet endorsed by EU)
- Amendment to IFRS 3: Business Combinations (effective 1 January 2020, not yet endorsed by EU)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020, not yet endorsed by EU)
- IFRS 17 Insurance Contracts (effective 1 January 2021, not yet endorsed by EU)

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies

2.2.1 Foreign currency translation

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Euro thousands, which is the Bank's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognised in the income statement, except when deferred in equity as qualifying cash flow or net investment hedges.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognised in the icnome statement or recorded directly in equity depending on the classification of the non-monetary item.

2.2.2 Derivative financial instruments and hedge accounting

Derivative financial instruments, including foreign exchange contracts, forward currency agreements and interest rate options (both written and purchased), currency and interest rate swaps and other derivative financial instruments, are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in notes 2.2.15 and 4.5.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Embedded derivatives

Policy applicable from 1 January 2018

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.2.12. In addition, certain derivatives, embedded in financial liabilities, are treated as separate derivatives when the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

Policy applicable before 1 January 2018

Certain derivatives, embedded in other financial instruments, are treated as separate derivatives when the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, their risks and economic characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The use of derivative financial instruments is inherent in the Bank's activities and aims principally at managing risk effectively.

Accordingly, the Bank, as part of its risk management strategy, may enter into transactions with external counterparties to hedge partially or fully interest rate, foreign currency, equity and other exposures that are generated from its activities.

The objectives of hedging with derivative financial instruments include:
- Reduce interest rate exposure that is in excess of the Bank's interest rate limits,
- Manage efficiently interest rate risk and fair value exposure,
- Manage future variable cash flows,
- Reduce foreign currency risk or inflation risk.

Hedge accounting

For hedge accounting purposes, the Bank forms a hedging relationship between a hedging instrument and a related item or group of items to be hedged. A hedging instrument is a designated derivative or a designated non-derivative financial asset or financial liability whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item.

Specifically, the Bank designates certain derivatives as hedges of the exposure to changes in the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge).

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

In order to apply hedge accounting specific criteria should be met. Accordingly, at the inception of the hedge accounting relationship, the Bank documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions, together with the method that will be used to assess the effectiveness of the hedging relationship. The Bank also documents its assessment, both at inception of the hedge and on an ongoing basis, an assessment of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items and whether the actual results of each hedge are within a range of 80-125%. If a relationship does not meet the abovementioned hedge effectiveness criteria, the Bank discontinues hedge accounting prospectively. Similarly, if the hedging derivative expires or is sold, terminated or exercised, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.

The method of recognising the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.

Furthermore, the Bank may designate groups of items as hedged items, by aggregating recognised assets or liabilities or unrecognised but highly probable transactions of similar risk characteristics that share the exposure for which they are hedged. Although the overall risk exposures may be different for the individual items in the group, the specific risk being hedged will be inherent in each of the items in the group.

(i) Fair value hedge

The Bank applies fair value hedging to hedge exposures primarily to changes in the fair value attributable to interest rate risk and currency risk.

The items that qualify for fair value hedge accounting include fixed rate debt securities classified as available-for-sale and as debt securities lending financial assets (policy applicable before 1 January 2018), as FVOCI and amortised cost financial assets (policy applicable after 1 January 2018), fixed rate term deposits or term loans measured at amortised cost, as well as fixed rate debt securities in issue.

The interest rate and currency risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps.

The Bank uses the dollar-offset method in order to assess the effectiveness of fair value hedges. This is a quantitative method that involves the comparison of the change in the fair value of the hedging instrument with the change in the fair value of the hedged item attributable to the hedged risk. Even if a hedge is not expected to be highly effective in a particular period, hedge accounting is not precluded if effectiveness is expected to remain sufficiently high over the life of the hedge.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.2 Derivative financial instruments and hedge accounting (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk. If the hedged item would otherwise be measured at cost or amortised cost, then its carrying amount is adjusted accordingly.

The Bank discontinues hedge accounting prospectively in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortised to income statement over the period to maturity. On hedge discontinuation, any hedging adjustment made previously to a hedged financial instrument for which the effective interest method is used is amortised to the income statement by adjusting the effective interest rate of the hedged item from the date on which amortisation begins. If the hedged item is derecognised, then the adjustment is recognised immediately in the income statement when the item is derecognised. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves.

(ii) Derivatives not designated as hedging instruments for hedge accounting purposes

Changes in the fair value of derivative financial instruments that are not designated as hedging instruments or do not qualify for hedge accounting, are recognised in the income statement under “Net trading income”.

The fair values of derivative instruments held for trading and used for hedging purposes are disclosed in note 16.

2.2.3 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when, and only when, the Bank has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank’s trading activity.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.4 Interest income and expense

Policy applicable from 1 January 2018

Interest income and expense is recognised in the income statement for all interest bearing financial instruments on an accrual basis, using the effective interest rate ('EIR') method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortised cost of a financial liability. When calculating the EIR for financial instruments other than POCI, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. For POCI financial assets, the Bank calculates the credit-adjusted EIR, which is the interest rate that upon the original recognition of the POCI financial asset discounts the estimated future cash flows (including expected credit losses) to the fair value of the POCI asset.

The amortised cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortisation using the EIR (as described above) and for financial assets, adjusted for the ECL allowance (or impairment allowance before 1 January 2018), while the gross carrying amount of a financial asset is its amortised cost before adjusting for ECL allowance.

The EIR calculation includes all fees and basis points paid or received that are an integral part of the effective interest rate, incremental transaction costs, and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset and liability.

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) and to the amortised cost of financial liabilities respectively.

For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortised cost of the financial asset (i.e. gross carrying amount adjusted for the ECL allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

For financial assets that were credit-impaired on initial recognition interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI asset's amortised cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation.

For inflation-linked instruments the Bank recognises interest income and expense by adjusting the EIR on each reporting period due to changes in expected future cash flows, incorporating changes in inflation expectations over the term of the instruments. The adjusted EIR is applied in order to calculate the new gross carrying amount on each reporting period. The EIR is also revised for fair value hedge adjustment at the date amortisation of the hedge adjustment begins.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.4 Interest income and expense (continued)

Interest income and expense is presented separately in the income statement for all interest bearing financial instruments within net interest income.

Presentation

Interest income calculated using the effective interest method presented in the relevant note includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Interest expense includes financial liabilities measured at amortised cost.

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL.

Policy applicable before 1 January 2018

Interest income and expense is recognised in the income statement for all interest bearing financial instruments on an accruals basis, using the EIR method. The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Bank estimated future cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and basis points paid or received that were an integral part of the EIR, incremental transaction costs and all other premiums or discounts.

Once a financial asset has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense was presented separately in the income statement for all interest bearing financial instruments within net interest income.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.5 Fees and commissions

Fee and commission received or paid that are integral to the EIR on a financial asset or financial liability are included in the EIR.

Other fee and commission income is recognised as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognised will not occur. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances and bank charges are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

<u>Policy applicable from 1 January 2018</u>

In the case of a contract with a customer that results in the recognition of a financial instrument in the Bank's financial statements which may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15, the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and subsequently applies IFRS 15 to the residual part.

2.2.6 Operating leases

Accounting for leases as lessee

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases under which the leased asset is not recognised on balance sheet. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.2.7 Income tax

Income tax expense comprises current and deferred tax. It is recognised in income statement except to the extent that it relates to items recognised directly in equity or OCI.

(i) Current income tax

Current income tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertaintly related to income taxes, if any.

It is calculated using tax rates enacted or substantively enacted at the balance sheet date.

Current tax assets and liabilities are offset only if certain criteria are met.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.7 Income tax (continued)

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and laws) that have been enacted or substantively enacted by the date of the balance sheet. The principal temporary differences arise from depreciation of property, plant and equipment and amortisation of computer software.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which these temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available. The Bank recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax related to investment securities at FVOCI is recognised in other comprehensive income, and is subsequently recognised in the income statement together with the deferred gain or loss.

Deferred tax assets and liabilities are offset only if certain criteria are met.

2.2.8 Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided and recognised as “staff costs” in the income statement. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(ii) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.9 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Subsequent expenditure is recognised in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognised in the income statement as incurred.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment, to their residual values, over their estimated useful lives. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term. The estimated useful economic lives are as follows:

	Useful economic life
Motor vehicles	5 years
Furniture, fixtures and office equipment	5 to 12 years
Leasehold property improvements	12 years
Computer hardware	5 to 10 years

Depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.2.11).

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

2.2.10 Intangible assets

Computer software

Acquired computer software licenses/programs are capitalised on the basis of the costs incurred to acquire and bring to use the specific software and measured at cost less accumulated amortisation and any accumulated impairment losses. These costs are amortised using the straight line method to allocate the cost of computer software, over their estimated useful lives. The annual amortisation rates used range between 8% and 33,33%.

Gains and losses on disposal of computer software are determined by comparing proceeds with carrying amount and are included in "other operating expenses" in the income statement.

Subsequent expenditure on software assets is captalised only when it increased the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.11 Impairment of non-financial assets

Non-financial assets, including property, plant and equipment, and intangible assets, are assessed for indications of impairment at each reporting date. When events or changes in circumstances indicate that the carrying amount may not be recoverable an impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

2.2.12 Financial assets

<u>Policy applicable from 1 January 2018</u>

Financial assets - Classification and measurement

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Loans and advances originated by the Bank are recognised when cash is advanced to the borrowers. Purchases and sales of all other financial assets are recognised on trade date, which is the date the Bank commits to purchase or sell the assets.

Financial Assets measured at Amortized Cost ('AC')

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met and is not designated as a FVTPL:
(a) the financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model); and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets that meet these criteria are debt instruments and are measured initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortised cost, using the EIR method (as described in 2.2.4 above).

Interest income, realised gains and losses on de-recognition, and changes in expected credit losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income ('FVOCI')

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met and is not designated as a FVTPL:
(a) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model); and
(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Financial Assets measured at Fair Value through Other Comprehensive Income ('FVOCI') (continued)

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs.

Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and expected credit losses, which are recognised in the income statement. Cumulative gains and losses previously recognised in OCI are transferred from OCI to the income statement when the debt instrument is derecognised.

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument that is not held for trading at FVOCI. This designation, if elected, is made at initial recognition and on an instrument-by-instrument basis. Gains and losses on these instruments, including when de-recognised, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

Financial Assets measured at Fair Value through Profit and Loss ("FVTPL")

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI and financial assets held for trading. Derivative financial instruments are measured at FVTPL, unless they are designated and effective hedging instruments, in which case hedge accounting requirements under IAS 39 continue to apply.

Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at FVTPL are initially recorded at fair value and any unrealised gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the assets, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which are managed similarly rather than at an individual instruments level.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Business model and contractual characteristics assessment (continued)

The business model is determined by the Bank's Executive Committee consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable.

Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Types of business models

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.

The hold-to-collect ('HTC') business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model. Debt instruments classified within this business model include bonds, due from credit institutions and loans and advances to customers which are measured at amortised cost, subject to meeting the SPPI assessment criteria.

The hold-to-collect-and-sell business model ('HTC&S') has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and NPE strategy.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Cash flow characteristics assessment

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and 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 profit margin.

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Bank will consider whether the contractual terms of the instrument 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 a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

In case of special lending arrangements such as non-recourse loans, in its assessment of the SPPI criterion, the Bank considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets. Moreover, for special purpose entities, the Bank takes into consideration the borrower's adequacy of loss absorbing capital by assessing jointly the criteria of equity sufficiency, Loan to Value ratio (LTV), the Average Debt Service Coverage ratio (ADSCR) as well as the existence of corporate and personal guarantees.

In certain cases, when the time value of money element is modified in that the financial asset's interest rate is periodically reset but the reset frequency does not match the tenor of the interest rate or when a financial asset's interest rate is periodically reset to an average of particular short-term and long-term interest rates, a quantitative assessment is performed (the "Benchmark Test") in order to determine whether the contractual cash flows are SPPI.

In particular, the Bank assesses the contractual cash flows of the "real instrument", whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the "benchmark instrument", which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion. In its assessment, the Bank considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Cash flow characteristics assessment (continued)

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis on the contractual cash flows of the financial asset, it does not affect its classification. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. In such a case, it does not affect the instrument's classification.

The Bank performs the SPPI assessment for its lending exposures on a product/type of contract basis for the portfolio where contracts are of standardised form, whereas for the remaining portfolio and debt securities, the assessment is performed on an individual basis.

Derecognition of financial assets

The Bank derecognises a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognised even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. Control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party. On derecognition of a financial asset the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in OCI for FVOCI, is recognised in the income statement.

The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention.

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the original financial asset is then derecognised. The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

Modifications that may result in derecognition include:
- change in borrower;
- change in the currency that the lending exposure is denominated;
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement;
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment;
- any other changes that cause the terms under the modified contract to differ substantially from those under the old contract (e.g. a new term due to which the loan cannot be considered a basic lending arrangement).

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Derecognition of financial assets (continued)

Other modifications that do not affect significantly the risk profile of a financial asset and accordingly may not result in derecognition include:

- changes in interest rate that are not considered significant or grace periods;
- changes in collaterals that are not substantial;
- other changes in contractual terms, e.g. increase in maturity, capitalisation of accruals, etc.

In cases where the modification of the contractual cash flows is not considered substantial (following the de-recognition assessment performed using the de-recognition triggers provided above), the modification does not result in derecognition. The Bank recalculates the gross carrying amount of the financial asset and recognises the difference as a modification gain or loss, which is reflected in the income statement. When a modification includes debt forgiveness, the portion of the asset subject to forgiveness is derecognised first and then the calculation of the modification gain/loss is performed.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in the income statement on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank has established a structured framework for both the SPPI and derecognition assessment of its financial assets that takes place to ensure appropriate classification and measurement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Policy applicable before 1 January 2018

Classification

The Bank classifies its financial assets in the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity financial assets; and available-for-sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(i) Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets held for trading and financial assets designated at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective hedging instruments.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss when the following apply:

a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
b) financial assets share the same risks with financial liabilities and those risks are managed and evaluated on a fair value basis; or
c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Bank upon initial recognition designates as fair value through profit or loss or as available-for-sale.

(iii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(iv) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.12 Financial assets (continued)

Measurement

Loans and advances originated by the Bank are recognised when cash is advanced to the borrowers. Purchases and sales of all other financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss category” are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in income statement. However, interest calculated using the effective interest rate method is recognised in the income statement.

Dividends on equity instruments are recognised in the income statement when the Bank’s right to receive payment is established.

Derecognition of financial assets

The Bank derecognises a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognised even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party.

In addition, derecognition of financial asset arises when its contractual cash flows are modified and the modification is considered substantial enough so that the original asset is derecognised and a new one is recognised. For a description of the events that would constitute a substantial modification of an asset, following a modification, refer to section 2.2.16 below. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognised in OCI for available-for-sale financial assets, is recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.13 Reclassification of financial assets

Policy applicable from 1 January 2018

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's competent Committees and the amendment is reflected appropriately in the Bank's budget and business plan.

Changes in intention related to particular financial assets (even in circumstances of significant changes in market conditions), the temporary disappearance of a particular market for financial assets or a transfer of financial assets between parts of the Bank with different business models, are not considered by the Bank changes in business model.

The reclassification is applied prospectively from the reclassification date, therefore previously recognised gains, losses (including impairment losses) or interest are not restated.

Policy applicable before 1 January 2018

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

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

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.14 Financial liabilities

Classification and measurement

Policy applicable from 1 January 2018

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities measured at fair value through profit or loss.

Financial liabilities at fair value through profit or loss comprise two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

Financial liabilities held for trading are those liabilities that the Bank incurs principally for the purpose of repurchasing in the near term for short term profit.

The Bank may, at initial recognition, irrevocably designate financial liabilities at FVTPL when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or
- a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis; or
- the financial liability contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial liabilities designated at FVTPL are initially recognised at fair value. Changes in fair value are recognised in the income statement, except for changes in fair value attributable to changes in the Bank's own credit risk, which are recognised in OCI and are not subsequently reclassified to the income statement upon derecognition of the liabilities. However, if such treatment creates or enlarges an accounting mismatch in the income statement, all gains or losses of this financial liability, including the effects of changes in the credit risk, are recognised in the income statement.

Policy applicable before 1 January 2018

The Bank classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss comprise two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

The Bank designates financial liabilities at FVTPL when any of the following apply:

a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.14 Financial liabilities (continued)

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognised in the income statement.

The Bank considers the terms to be substantially different, if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2.2.15 Fair value measurement of financial instruments

Fair value of financial instruments 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 under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market 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 Bank uses other 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 factors that market participants would take into account in pricing a transaction.

The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

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 unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.15 Fair value measurement of financial instruments (continued)

On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, 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 (day one gain or loss). Subsequently the deferred gain or loss is amortised on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 4.5).

2.2.16 Impairment of financial assets

<u>Policy applicable from 1 January 2018</u>

Impairment of financial assets

The Bank recognises allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments. No ECL are recognised on equity investments.

ECLs are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognised, arising from default events that are possible over the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of POCI, the loss allowance is based on the change in the ECL over the life of the asset.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECL. For all other financial assets subject to impairment, the general three-stage approach applies.

Accordingly, ECLs are recognised using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – When there is no significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-months ECL is recorded. The 12–month ECL represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognised following a substantial modification accounted for as a de-recognition, are classified initially in Stage 1.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. Lifetime ECL represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.
- POCI - POCI assets are financial assets that are credit-impaired on initial recognition. They are not subject to stage allocation and are always measured on the basis of lifetime expected credit losses. Accordingly, ECL are only recognised to the extent that there is a subsequent change in the assets' lifetime expected credit losses. Any subsequent favourable change to their expected cash flows is recognised as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a de-recognition (see section 2.2.12).

Definition of default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the European Banking Authority (EBA) definition for non-performing exposure. The accounting definition of default is consistent with the one used for internal credit risk management purposes.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations (e.g. assessed as unlikely to pay).
- There has been a breach of contract, such as a default or past due event (i.e. material exposures that are in arrears for more than 90 days).
- The Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organisation.
- For POCI assets, a purchase or origination at a deep discount that reflects incurred credit losses is considered a detrimental event. The Bank assesses the deep discount criterion following a principle-based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

For debt securities, the Bank determines the risk of default using an internal credit rating scale. The Bank considers debt securities as credit-impaired if the internal rating of the issuer/counterparty corresponds to a rating equivalent to "C" (Moody's rating scale) or the external rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale) and the internal rating is not available.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and staging allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a SICR of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition.

At each reporting date, the Bank performs an assessment as to whether the risk of a default occurring over the remaining expected lifetime of the exposure has increased significantly from the expected risk of a default estimated at origination for that point in time.

The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort including forward looking information and macroeconomic scenarios as well as historical experience. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

As a primary criterion for SICR assessment, the Bank compares the residual lifetime probability of default (PD) at each reporting date to the residual lifetime PD for the same point in time which was expected at the origination.

The Bank may also consider as a SICR indicator when the residual lifetime PD at each reporting date exceeds certain predetermined values. The criterion may be applied in order to capture cases where the relative PD comparison does not result to the identification of SICR although the absolute value of PD is at levels which are considered high based on the Bank's risk appetite framework.

For a financial asset's risk, a threshold may be applied, normally reflected through the asset's forecasted PD, below which it is considered that no significant increase in credit risk compared to the asset's expected PD at origination date has taken place. In such a case the asset is classified at Stage 1 irrespectively of whether other criteria would trigger its classification at Stage 2. This criterion primarily applies to debt securities.

Internal credit risk rating (on a borrower basis) is also used as a basis for the identification of SICR with regards to lending exposures of the loan portfolio. Specifically, the Bank takes into consideration the changes of internal ratings by a certain number of notches. In addition, a watchlist status is also considered by the Bank as a trigger for SICR identification.

Assessment of SICR for debt securities is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date.

Forbearance measures as monitored by the Bank are considered as a SICR indicator and thus the exposures are allocated into Stage 2 upon forbearance unless they are considered credit-impaired in which case they are reclassified as Stage 3. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and staging allocation (continued)

Furthermore, Management may apply temporary collective adjustments when determining whether credit risk has increased significantly since initial recognition on exposures that share the same credit risk characteristics to reflect macro-economic or other factors which are not adequately addressed by the current credit risk models. These factors may depend on information such as the type of the exposure, counterparty's specific information and the characteristics of the financial instrument while their application requires the application of significant judgment.

Transfers from Stage 2 to Stage 1

A financial asset, which is classified to Stage 2 due to SICR, is reclassified to Stage 1, as long as it does not meet anymore any of the Stage 2 Criteria.

Where forbearance measures have been applied, the Bank uses a probation period of two years, in order to fulfill the requirements for a transfer back to Stage 1. If at the end of that period the borrowers have made regular payments of a significant aggregate amount, there are no past due amounts over 30 days and the loans are neither credit-impaired, nor any other SICR criteria are met, they exit forborne status and are classified as Stage 1.

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterised as credit-impaired, are no longer valid.

Criteria for grouping of exposures based on shared credit risk characteristics

The assessment of loss allowance is performed either on an individual basis or on a collective basis for groups of similar items with homogeneous credit risk characteristics. The Bank applies the same principles for assessing SICR since initial recognition when estimating ECLs on a collective or on an individual basis.

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default.

The shared credit risk characteristics used for the segmentation of exposures include several elements such as: instrument type, portfolio type, asset class, product type, industry, originating entity, credit risk rating, remaining term to maturity, geographical location of the borrower, value of collateral to the financial asset, forbearance status and days in arrears.

Exposures allocated in Stage 3 are individually assessed and ECL measurement is performed on borrower specific information. This measurement is performed at a borrower level, hence the criteria are defined at this level, while both qualitative and quantitative factors are taken into consideration including forward looking information.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Criteria for grouping of exposures based on shared credit risk characteristics (continued)

For exposures allocated in Stage 1 and Stage 2, ECL are measured on a collective basis. This incorporates borrower specific information, collective historical experience of losses and forward-looking information. For debt securities, the measurement of impairment losses is performed on an individual debt security basis.

Measurement of Expected Credit Losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original EIR of the same instrument, or the credit-adjusted EIR in case of POCI. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered. For loan commitments (i.e. undrawn commitments) ECLs are calculated as the present value of the difference between the contractual cash flows due if the commitment is drawn and the expected cash flows to be received while for financial guarantees ECLs are measured as the expected payments to reimburse the holder less any amounts that the Bank expects to receive.

The Bank estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources, including collateral and other credit enhancements that are part of the contractual terms and are not recognised separately. In case of a collateralised financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from liquidation less the discounted costs of obtaining and selling the collateral, irrespective of whether liquidation is probable.

ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument, or in case of revolving credit facilities, by taking into consideration factors such as the Bank’s expected credit risk management actions to mitigate credit risk and past practice.

Receivables from customers arising from the Bank’s activities other than lending, are presented under Other Assets and are typically short term. Therefore, considering that usually there is no significant financing component, the loss allowance for such financial assets is measured at an amount equal to the lifetime expected credit losses under the simplified approach.

ECL Key Inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF) and the prepayment rate. Generally, the Bank derives these parameters from internally developed statistical models and observed point-in-time and historical data, leveraging the existing infrastructure development for the regulatory framework and risk management practices.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

ECL Key Inputs (continued)

The PD, LGD and EAD used for accounting purposes may differ from those used for regulatory purposes. For the purposes of IFRS 9 impairment measurement, PD is a point-in-time estimate whereas for regulatory purposes PD is a 'through-the-cycle' estimate. In addition, LGD and EAD for regulatory purposes are based on loss severity experienced during economic downturn conditions, while for impairment purposes, LGD and EAD reflect an unbiased and probability-weighted amount.

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon.

The Bank uses Point in Time ('PiT') PDs in order to remove any bias towards historical data thus aiming to reflect management's view of the future as at the reporting date, incorporating relevant forward looking information including macroeconomic scenarios.

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.
- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECLs for Stage 2, Stage 3 and POCI exposures.

For debt securities, PDs are obtained by an international rating agency using risk methodologies that maximise the use of objective non-judgmental variables and market data. The Bank assigns internal credit ratings to each issuer/counterparty based on these PDs. In case of counterparties for which no information is available, the Bank assigns PDs which are derived from internal models.

The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The EAD includes both on and off balance sheet exposures. The on balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on balance sheet exposure.

Furthermore, the CCF factor is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. It is a modelled assumption which represents a proportion of any undrawn exposure that is expected to be drawn prior to a default event occurring.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

ECL Key Inputs (continued)

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The Bank distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. The Bank estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realisation, realisation costs, etc.

Where the LGD's component values are dependent on macro–economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

For debt securities, the LGD is typically based on historical data derived mainly from rating agencies' studies but may also be determined considering the existing and expected liabilities structure of the obligor and macroeconomic environment.

Furthermore, the seniority of the debt security, any potential collaterals by the obligor or any other type of coverage is taken into account for the calculation.

Forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk consider information about reasonable and supportable forecasts of future events and macroeconomic conditions. The estimation and application of forward-looking information requires significant judgment.

The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome. The base scenario represents the most likely scenario and is aligned with the information used by the Bank for strategic planning and budgeting purposes.

The scenarios are reflected in the risk parameters, and, namely 12-month PD, Lifetime PD and LGD, hence 3 sets of each of these parameters are used, in line with the scenarios developed.

The Bank then proceeds to the calculation of weights for each scenario, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in ECL measurement. ECL calculation incorporates forward-looking macroeconomic variables, including GDP growth rates, real estate price indices, unemployment rates, inlation rates, etc.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Modified financial assets

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough, the modification date is considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. Such a modified asset is typically classified as Stage 1 for ECL measurement purposes. However, in some circumstances following a modification that results in de-recognition of the original financial asset, there may be evidence that the new financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognised as an originated credit-impaired financial asset (POCI).

In cases where the contractual cash flows of a financial asset have been modified and the modification is not considered substantial enough, the Bank recalculates the gross carrying amount of the financial asset and recognises the difference as a modification gain or loss in the income statement and determines if the financial asset's credit risk has increased significantly since initial recognition by comparing the risk of a default occurring at initial recognition based on the original unmodified contractual terms and the risk of a default occurring at the reporting date, based on the modified contractual terms.

Presentation of allowance for expected credit losses

For financial assets measured at amortised cost, impairment allowance is recognised as a loss allowance reducing the gross carrying amount of the financial assets in the balance sheet. For debt instruments measured at FVOCI, impairment allowance is recognised in other comprehensive income and does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial items arising from lending activities, impairment allowance is presented in "Other Liabilities", while the respective ECL is recognised within impairment losses.

Write-off of financial assets

Where the Bank has no reasonable expectations of recovering a financial asset either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The timing of the write-off is mainly dependent on whether there are any underlying collaterals, their foreclosure processes, as well as the Bank's estimates of the collectible amounts. The amount that is written-off is considered as derecognised. Unpaid debt continues to be subject to enforcement activity even after it is written-off, except for cases where it is clearly stipulated in debt forgiveness programs. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

Policy applicable before 1 January 2018

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets not carried at FVTPL is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    - adverse changes in the payment status of borrowers in the portfolio; and
    - national or local economic conditions that correlate with defaults on the assets in the portfolio.

(i) Assets carried at amortised cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

(i) Assets carried at amortised cost (continued)

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "impairment losses on loans and advances" whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in "Gains less losses from investment securities".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.16 Impairment of financial assets (continued)

(ii) Available-for-sale assets

The Bank assesses at each reporting date whether there is objective evidence that an asset classified as available for sale is impaired. Particularly, in the case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is also considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in income statement, the impairment loss is reversed through the income statement.

2.2.17 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

Securities sold subject to repurchase agreements (“repos”) continue to be recorded in the Bank’s balance sheet as the Bank retains substantially all risks and rewards of ownership, while the counterparty liability is included in amounts due to other banks or due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price in case of repos and the purchase and resale price in case of reverse repos is treated as interest and accrued over the period of the repo or reverse repo agreements using the effective interest method.

(ii) Securities lending

Securities lent to counterparties are also retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.2.18 Fiduciary activities

The Bank provides custody, trustee and agency services to third parties. This involves the Bank making allocation, purchases and sales in relation to a wide range of financial instruments. The Bank receives fee income for providing these services. Those assets that are held in a fiduciary capacity are not assets of the Bank and are not recognised in the financial statements. In addition, the Bank does not guarantee these investments and as a result it is not exposed to any credit risk in relation to them.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.19 Related party transactions

Related parties of the Bank include:

a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members;
b) members of key management personnel of the Bank, their close family members and entities controlled or jointly controlled by the abovementioned persons;
c) associates and joint ventures of the Bank and the Group; and
d) fellow subsidiaries.

Transactions of similar nature are disclosed on an aggregate basis. All banking transactions entered into with related parties are in the normal course of business and are conducted on an arm's length basis.

2.2.20 Other payables

Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

2.2.21 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimates 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 each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.2.22 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distribution on shares is recognised as a deduction in the Bank’s equity when approved by the General Meeting of shareholders. Interim dividends are recognized as a deduction in the Bank’s equity when approved by the Board of Directors.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, which do not include the distribution of dividends, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share capital.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.23 Financial guarantees and commitments to extend credit

Policy applicable from 1 January 2018

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised at fair value. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the impairment loss allowance, and the amount initially recognised less any cumulative amortisation of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9.

Impairment allowance for off-balance sheet exposures (financial guarantees and loan commitments) is included within “Other Liabilities”.

Policy applicable before 1 January 2018

Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank’s liabilities under such guarantees are measured at the higher of the initial amount, less amortisation calculated to recognise in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management.

2 Summary of significant accounting policies (continued)

2.2 Principal accounting policies (continued)

2.2.23 Financial guarantees and commitments to extend credit (continued)

Commitments to extend credit

Commitments to extend credit represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. The Bank recognises a provision in accordance with IAS 37 only when the commitment contract can be considered to be onerous.

2.2.24 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents include notes and coins on hand, balances with central banks, all interbank placements and reverse sale agreements with other banks with original maturities of less than three months. Funds restricted for a period of more than three months on origination are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

2.2.25 Investments in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are measured at cost less impairment. Investments in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. An impairment loss recognised in prior years is reversed where appropriate if there has been a change in the estimates used to determine the recoverable amount.

2 Summary of significant accounting policies (continued)

2.3 IFRS 9 'Financial Instruments' – impact of adoption

2.3.1 Adoption of IFRS 9

The Bank adopted IFRS 9 on 1 January 2018, whereas the Standard's requirements were applied retrospectively by adjusting the Bank's balance sheet on the date of transition on 1 January 2018. The Bank applied the Standard's exemption not to restate comparative figures for prior periods; therefore, the Bank's 2017 comparatives are presented on an IAS 39 basis. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognised as an adjustment to opening reserves and retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented below.

2.3.2 Transition to IFRS 9 - impact

The impact of transitioning to IFRS 9 amounts to €58 thousand at 1 January 2018, as depicted in the table below:

	IFRS 9 impact €'000
Impact attributed to:	
Impairment	
- Loans and advances to customers	742
- Other financial assets	(886)
- Financial guarantee contracts and other credit related commitments and loan commitments	(249)
Total impairment	(393)
Classification and measurement	451
Total IFRS 9 impact	**58**

For the purpose of the transition to IFRS 9, the Bank carried out a business model assessment across various portfolios for its debt instruments portfolios to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed at the date of initial application i.e. 1 January 2018. The effect on Core Tier 1 is negligible (~0,01 basis points).

2 Summary of significant accounting policies (continued)

2.3 IFRS 9 'Financial Instruments' – impact of adoption (continued)

2.3.2 Transition to IFRS 9 – impact (continued)

The table below discloses the changes in the carrying amounts and the classifications of financial assets and financial liabilities upon transition to IFRS 9 as of 1 January 2018.

	Carrying amount 31.12.2017 under IAS 39			Remeasurement		New carrying amount 1.1.2018 under IFRS 9	
	Category	**Amount €'000**	**Reclassification €'000**	**ECL €'000**	**Other €'000**	**Amount €'000**	**Category**
Financial assets							
Cash and balances with central banks							
	Loans and receivables	505.904	-	-	-	505.904	
		505.904	**-**	**-**	**-**	**505.904**	*Amortised cost*
Due from credit institutions							
	Loans and receivables	2.337.755	(2.000)	(138)	-	2.335.617	*Amortised cost*
			2.193	-	-	2.193	*Mandatorily at FVTPL*
		2.337.755	**193**	**(138)**	**-**	**2.337.810**	
Derivative financial instruments							
	FVTPL	811	(193)	-	-	618	*Mandatorily at FVTPL*
		811	**(193)**	**-**	**-**	**618**	
Loans and advances to customers							
	Loans and receivables	1.895.345	(12.522)	742	-	1.883.565	*Amortised cost*
			12.522	-	-	12.522	*Mandatorily at FVTPL*
		1.895.345	**-**	**742**	**-**	**1.896.087**	
Investment securities							
	Available-for-sale	304.100	36.690	-	451	341.241	FVOCI
	Available-for-sale		2.018	-	-	2.018	*Mandatorily at* FVTPL
	Held-to-maturity	232.237	(38.708)	(748)	-	192.781	*Amortised cost*
		536.337	**-**	**(748)**	**451**	**536.040**	
Other assets							
	Loans and receivables	1.887	-	-	-	1.887	
		1.887	**-**	**-**	**-**	**1.887**	*Amortised cost*
Financial liabilities							
Due to credit institutions							
	Amortised cost	560.463	-	-	-	560.463	
		560.463	**-**	**-**	**-**	**560.463**	*Amortised cost*
Derivative financial instruments							
	FVTPL	5.236	-	-	-	5.236	*Mandatorily at FVTPL*
		5.236	**-**	**-**	**-**	**5.236**	
Due to customers							
	Amortised cost	4.265.178	-	-	-	4.265.178	*Amortised cost*
		4.265.178	**-**	**-**	**-**	**4.265.178**	
Other liabilities							
	Amortised cost	47.797	-	249		48.046	*Amortised cost*
		47.797	**-**	**249**	**-**	**48.046**	
Total IFRS 9 impact				**(393)**	**451**		

2 Summary of significant accounting policies (continued)

2.3 IFRS 9 'Financial Instruments' – impact of adoption (continued)

2.3.2 Transition to IFRS 9 – impact (continued)

As a result of the transition to IFRS 9, the most significant changes in classification and measurement of the financial assets and liabilities of the Bank are as follows:

- Loans and advances to customers measured at amortised cost under IAS 39, are also measured at amortised cost under IFRS 9, except for a non-significant amount (0,7%) of €12.522 thousand, which has been reclassified to FVTPL (mandatorily).
- Amounts due from credit institutions measured at amortised cost under IAS 39, are also measured at amortised cost under IFRS 9, except for a non-significant amount of €2.193 thousand, which has been reclassified to FVTPL (mandatorily).
- Held-to-maturity investment securities of €38.708 thousand measured at amortised cost under IAS 39, are classified as FVOCI under IFRS 9.
- Available-for-sale investments of €2.018 thousand are classified as FVTPL (mandatorily) under IFRS 9.

The table below presents the impact of transition to IFRS 9 to the fair value reserve and retained earnings:

	IFRS 9 impact €'000
Fair value reserve	
Closing balance under IAS 39	**16.215**
Remeasurement under IFRS 9 measurement categories	**451**
Reclassification of investment securities (equity) from available-for-sale to FVTPL	**(119)**
Remeasurement under IFRS 9 ECL impairment for FVOCI portfolio	**1.114**
Opening balance under IFRS 9	**17.661**
Retained earnings	
Closing balance under IAS 39	**136.249**
Reclassification of investment securities (equity) from available-for-sale to FVTPL	**119**
Recognition of ECL under IFRS 9	**(1.507)**
Opening balance under IFRS 9	**134.861**

2 Summary of significant accounting policies (continued)

2.3 IFRS 9 ‘Financial Instruments’ – impact of adoption (continued)

2.3.2 Transition to IFRS 9 – impact (continued)

The following table reconciles the prior period's closing impairment allowance for loans and advances to customers and debt securities measured in accordance with the IAS 39 incurred loss model and the provisions for credit related commitments in accordance with IAS 37 to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018.

	31 December 2017 as per IAS 39 / IAS 37	As at 1 January 2018 as per IFRS 9			
		Remeasurement			
	Provision impairment €’000	12-month ECL €’000	Lifetime ECL not-credit impaired €’000	Lifetime ECL credit-impaired €’000	Loss allowance under IFRS 9 €’000
Loans and advances to customers at amortised cost	71.677	1.798	1.984	(4.524)	**70.935**
Debt securities at amortised cost	-	748	-	-	**748**
Debt securities at FVOCI	-	1.114	-		**1.114**
Due from credit institutions	-	138	-	-	**138**
Credit losses on financial guarantee contracts and other credit related commitments	-	245	4	-	**249**
	71.677	**4.043**	**1.988**	**(4.524)**	**73.184**

Additional loss allowance of €1.507 thousand is recognised as a result of the transition to IFRS 9 for the said instruments. The loss allowance relating to credit losses of debt securities at FVOCI of €1.114 thousand is recognised in other comprehensive income and does not reduce the carrying amount of the debt securities in the balance sheet.

3 Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Bank's accounting policies, the Bank's management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities and revenues and expenses recognised in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are recognised prospectively. The most significant areas in which the Bank makes judgments, estimates and assumptions in applying its accounting policies are set out below:

3.1 Impairment losses on loans and advances to customers

Applicable from 1 January 2018

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognised.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk

IFRS 9 does not include a definition of what constitutes a SICR. An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable forward-looking information that includes significant management judgment. More stringent criteria could significantly increase the number of instruments migrating to Stage 2.

As of 31 December 2018, the credit rating deterioration thresholds as per applicable borrower internal rating scale, that trigger allocation to Stage 2 per rating bands for the Bank's portfolio are set out in the tables below:

Internal rating bands	SICR threshold range
1-2	Two to three notches
3-4	Two notches or more
5-8	One notch or more

3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances to customers (continued)

Determination of scenarios, scenario weights and macroeconomic factors

To achieve the objective of measuring ECL, the Bank evaluates a range of possible outcomes in line with the requirements of IFRS 9 through the application of a minimum three macroeconomic scenarios i.e. baseline, adverse and optimistic, in a way that reflects an unbiased and probability weighted outcome. Each of the scenarios is based on management's assumptions around future economic conditions in the form of macroeconomic, market and other factors. As of 31 December 2018, the probability weights for the above mentioned scenarios applied by the Bank in the ECL measurement calculations are 50% for the baseline scenario and 25% for the adverse and optimistic scenarios.

In terms of macroeconomic assumptions, the Bank assesses a number of indicators in projecting the risk parameters, namely Gross Domestic Product (GDP) growth rates, real estate price indices, unemployment rates, inflation rates, etc.

Development of ECL models, including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterisation based on observed point-in-time data on a granularity of monthly intervals. The ECL calculations are based on input parameters, i.e. EAD, PDs, LGDs, CCFs, etc. incorporating management's view of the future. The Bank also determines the links between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.

Furthermore, the PDs are unbiased rather than conservative and incorporate relevant forward looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of explanatory variables, such as GDP, etc. which are used as independent variables for optimum predictive capability. The models are based on linear regressions and run under the different macroeconomic scenarios and relevant changes and shocks in the macro environment are reflected accordingly, in a non-linear manner.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default. On subsequent periods, the Bank re-evaluates the grouping of its exposures at least on an annual basis, in order to ensure that the groups remain homogeneous in terms of their response to the identified shared credit risk characteristics. Re-segmentation reflects management's perception in respect to the change of credit risk associated with the particular exposures compared to initial recognition. For the shipping portfolio, in respect of which the Bank has limited historical data, the PDs were derived using Group's information to supplement the internally available data.

3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances to customers (continued)

Modelling and Management overlays / adjustments

The Bank updates and reviews the reasonability and performs back-testing of the main assumptions used in its methodology assessment for SICR and ECL measurement, at least on an annual basis or earlier, based on facts and circumstances. In this context, experienced and dedicated staff within the Bank's Risk Management function monitors the risk parameters applied for the estimation of ECL. Furthermore, as part of the well-defined governance framework, any revisions to the methodology used are approved by the Bank competent committees and ultimately the Board Risk Committee (BRC).

Sensitivity analysis on lending portfolios

The Bank has performed sensitivity analysis relating to its loan portfolio classified in 12 month ECL (Stage 1) and lifetime ECL not credit-impaired (Stage 2) categories which represent 96% of the total loan portfolio of the Bank with reference date 31 December 2018. The Bank uses, at a minimum, three macroeconomic scenarios (i.e. base, adverse and optimistic) to achieve the objective of measuring ECL in a way that reflects an unbiased and probability weighted outcome. The impact of the change in the weights of the economic scenarios and the collateral realisation periods on the ECL calculations, as at 31 December 2018 is shown below:

	Increase/(decrease) on ECL for loans and advances to customers at amortised cost €'000
Increase the adverse weight by 5% and decrease the favourable weight by 5%	**-**
Decrease the adverse weight by 5% and increase the favourable weight by 5%	**(17)**
Increase the expected recovery period by 1 year	**173**
Decrease the expected recovery period by 1 year	**(173)**
Increase the collateral realisation haircut by 5%	**370**
Decrease the collateral realisation haircut by 5%	**(462)**
Increase in the PDs of stages 1&2 by 20%	**522**
Decrease in the PDs of stages 1&2 by 20%	**(540)**

3 Critical accounting estimates and judgments in applying accounting policies (continued)

3.1 Impairment losses on loans and advances to customers (continued)

Applicable before 1 January 2018

The Bank reviews its loan portfolios to assess impairment continuously. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating there is measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

For loans assessed on an individual basis, on a case by case basis, management uses its best estimate to determine the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about the borrower's financial position and the net realisable value of any underlying collaterals.

4 Financial risk management and fair value

4.1 Use of financial instruments

By their nature the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers, at both fixed and floating rates, and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank also seeks to raise its interest margins by obtaining above average margins, net of provisions, through lending to commercial and retail borrowers within a range of credit standing. Such exposures include both on-balance sheet loans and advances and off-balance sheet guarantees and other commitments such as letters of credit.

The Bank also trades in financial instruments where it takes positions in traded and over the counter instruments including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency and interest rates.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors

The Bank's activities expose it to a variety of financial risks, such as credit risk, market risk (including currency risk, interest rate risk and equity price risk), liquidity risk and operational risk. The Bank's overall risk management strategy seeks to minimise any potential adverse effects on its financial performance, financial position and cash flows.

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via a set of quantitative and qualitative statements for specific risk types, including specific tolerance levels as described in the Bank's Risk Appetite Framework. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

Risk Management Organisation

The Bank aims to adopt best practices regarding corporate governance, taking into account all relevant guidelines and regulatory requirements. The Bank has developed a well-established risk governance structure, based on clear ownership and accountability principles, efficient segregation of duties, prevention of conflicts of interest and strong independent oversight at all levels.

Board Risk Committee

The Board of Directors has delegated to the Board Risk Committee (BRC) the duties and responsibilities to approve all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). As such BRC plays a key role in the oversight of the risk management function of the Bank. The BRC, through its effective oversight, guides the Bank into strengthening further the risk control environment and assists fundamentally the Board of Directors into taking proper and sound strategic decisions.

Risk Management Unit

The purpose of the Risk Management Unit ("RMU") is to establish and implement an appropriate system for the measurement and management of all significant risks inherent in the activities of the Bank. Among others, the functions of the RMU include the following:

- The utilisation of suitable methods employed for the identification and management of risks;
- The fine-tuning of limits based on specific parameters, by type of risk, counter-party, business sector, country, currency, facility, security, derivative, etc.;
- The setting-up of an early warning system for individual and connected portfolios;
- The carrying out of stress tests for all types of risks, on annual basis;
- Submission of various reports, at least on a quarterly basis to the Board of Directors and the executive management;
- Implementation of provisioning policy;
- Set up of risk policies & procedures.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

Risk Management Unit (continued)

The RMU is headed by the Risk Executive who is appointed by the Board of Directors and is organised along the following departments:

- Credit Risk: (i) reviews all credit proposals and prepares risk assessments (ii) maintains records of all approved borrowers limits & credit exposures.
- Market, Liquidity & Counterparty Risk: i) monitors market risks to which the Bank is exposed to, ii) monitors and reports counterparty exposures iii) develops models and systems for the measurement of market risks iv) monitors the liquidity of the Bank.
- Operational Risk: assists the business units in i) identifying, assessing, capturing, reporting, monitoring, preventing and mitigating all Operational Risk events of their ownership ii) implementing an effective operational risk management program, providing reliable information on the most significant risks, measuring and monitoring the operational risk exposure undertaken by the Bank thus adding value through increased efficiency in risk management, efficient capital allocation, acknowledgement and accountability of risks.
- Credit Control: monitors and evaluates on an ongoing basis the quality of the credit portfolio, allocates provision charges per specific borrower or portfolios of borrowers and verifies adherence to the Bank's Credit Policy Manual. Furthermore, it is responsible for the regulatory and management reporting for all credit related matters.

Legal framework

As part of the Government's initiative to assist in the regulatory issues of NPEs, in July 2018 the House of Parliament voted on the Government's legislative proposals for strengthening the foreclosure and insolvency framework and facilitating the securitisation of NPEs and the sale of loans. Taken together, these measures along with ESTIA, will support further reductions in the remaining stock of NPEs. The terms of the ESTIA Scheme are subject to finalisation and the Scheme is expected to be launched in the second quarter 2019.

4.2.1 Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Credit risk arises from Bank's activities and from the offered products and services. Taking into account that credit risk is the primary risk the Bank is exposed to, it is very closely managed and monitored according to the Bank's risk management framework.

Country risk is the risk of losses arising from economic difficulties or political unrest in a country, including the risk of losses following nationalisation, expropriation and debt restructuring.

Settlement risk is the risk arising when payments are settled, for example for trades in financial instruments, including derivatives and currency transactions. The risk arises when the Bank remits payments before it can ascertain that the counterparties' payments have been received.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Credit concentration risk is defined as the current or prospective risk to earnings and capital arising from excessive exposure placed with one counterparty or group of related counterparties whose likelihood of default is driven by common underlying factors e.g. geographical location, economic sector and industry.

The Bank's lending policy is monitored on an ongoing basis depending on the overall lending strategy (affected by opportunities and threats detected in the local and international business environment), the introduction of new products and services or other criteria as decided by the Bank's Management. Internal procedures and policies are revised accordingly so as to reflect the needs created by the new environment.

Credit approval process

The credit approval process is centralised through establishment of Credit Committees with escalating Credit Approval Levels. Credit Committees are authorized to approve new financing, renewals or amendments in the existing credit limits, in accordance with their approval authority level, depending on total limit amount and customer risk category as well as the value and type of collateral.

Credit risk monitoring

The Risk Management Unit monitors and assesses on an ongoing basis the quality of the Bank's loan portfolio and operates independently from the business units of the Bank.

The Bank has in place a system for monitoring the delinquency of credit facilities and setting-up of adequate provisions for loan impairment in accordance to IFRS and local regulations. The monitoring system includes:

- monitoring of the borrower's financial condition, business evolution and overall creditworthiness;
- monitoring the compliance of the borrowers to the set financial and other covenants; and
- monitoring delinquencies (past dues).

Rating systems

The Bank applies various credit rating systems for the assessment and measurement of credit risk. These systems assign a specific rating to every borrower/counterparty which reflects the creditworthiness of the particular borrower and consequently the ability to repay funds on a timely manner. Credit rating takes under consideration various quantitative and qualitative factors. The Bank periodically reviews rating systems and adapts them to particular market conditions, products or borrowers.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Rating systems (continued)

The Bank employs the following rating models for its portfolio:
- Moody's Risk Advisor (MRA) is used to assess the risk of borrowers for Corporate and Commercial Lending.
- Internal Credit Rating (ICR) is used for those customers that cannot be rated by MRA.
- Slotting rating model for specialised exposures.
- Real Estate Rating Model is used to assess the risk of real estate exposures.

The rating systems consist an integral part of the banking decision-making and risk management processes:
- The credit approval or rejection, both at the origination and review process;
- The allocation of competence levels for credit approval;
- Risk-adjusted pricing;
- Internal capital allocation; and
- The impairment calculation (staging criteria and subsequent ECL estimation of forecasted risk parameters).

Credit risk mitigation

A key component of the Bank's business strategy is to reduce risk by utilising various risk mitigating techniques. The most important risk mitigating means are collaterals' pledges, guarantees and netting agreements. The types of collaterals commonly accepted by the Bank are:
- Residential real estate, commercial real estate, industrial buildings and land;
- Receivables (trade debtors);
- Securities, including listed shares and bonds;
- Deposits;
- Guarantees and letters of support;
- Insurance policies;
- Equipment, mainly vessels.

A specific coverage ratio is pre-requisite, upon the credit relationship's approval and on ongoing basis, for each collateral type.

For exposures, other than loans to customers (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility is based on the following factors:

- the collateral's fair value, i.e. the exit price that would be received to sell the asset in an orderly transaction under current market conditions;
- the fair value reflects market participants' ability to generate economic benefits by using the asset in its highest and best use or by selling it;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

The Bank performs collaterals' valuation in accordance with its processes and policies. For real estate collaterals, the Bank employs external qualified appraisers based on predefined criteria (qualifications and expertise). All appraisals take into account factors such as the region, age and marketability of the property.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasises the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

Counterparty risk

The Bank mitigates counterparty risk arising from treasury activities by entering into master netting arrangements and similar agreements, as well as collateral agreements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in the offset of balance sheet assets and liabilities, as the transactions are usually settled on a gross basis. However, the respective credit risk is reduced through a master netting agreement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis.

In the case of derivatives, the Bank makes use of International Swaps and Derivatives Association (ISDA) contracts, which limit the exposure via the application of netting, and Credit Support Annex (CSAs), which further reduce the total exposure with the counterparty. Under these agreements, the total exposure with the counterparty is calculated on a daily basis taking into account any netting arrangements and collaterals.

The same process is applied in the case of repo transactions where standard Global Master Repurchase Agreements (GMRAs) are used. The exposure (the net difference between repo cash and the market value of the securities) is calculated on a daily basis and collateral is transferred between the counterparties thus minimising the exposure.

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

Forbearance practices on lending activities

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition.

Forbearance practices as monitored and reported by the Bank, based on the European Banking Authority Implementing Technical Standards (EBA ITS), occur only in the cases where the contractual payment terms of a loan have been modified, as the borrower is considered unable to comply with the exsiting loan's terms due to apparent financial difficulties and the Bank grants a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties.

All other types of modifications granted by the Bank, where there is no apparent financial difficulty of the borrower and may be driven by factors of a business nature are not classified as forbearance measures.

Classification of Forborne loans

Forborne loans are classified either as non-impaired (Stage 2), or impaired (Stage 3) by assessing their delinquency and credit quality status.

Forborne loans either impaired or not, enter a specific probation period where the borrowers' payment performance is closely monitored. If at the end of these specific periods the borrowers have complied with the terms of the program and there are no past due amounts over 30 days and concerns regarding the loans' full repayment, the loans are reclassified accordingly.

Particularly, the category of credit impaired forborne loans includes those that (a) at the date when forbearance measures were granted, were more than 90 days past due or assessed as unlikely to pay, (b) at the end of the one year probation period met the criteria of entering the non-impaired status and during the two years monitoring period new forbearance measures were extended or became more than 30 days past due, and (c) were initially classified as non-impaired and during the two years monitoring period met the criteria for entering the credit impaired status.

Impairment assessment

Where forbearance measures are extended, the Bank performs an assessment of the borrower's financial condition and its ability to repay, under the Bank's Impairment Policy as described in note 2.2.16.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held

The tables below represent the maximum credit risk exposure of the Bank at 31 December 2018 and 2017, without taking into account any collateral held.

For on-balance sheet assets, the exposures set out below are based on the carrying amounts as reported in the balance sheet. For off-balance sheet items, exposures are shown at nominal amount.

Amounts under IFRS 9

	2018 €'000	
Credit risk exposures relating to on-balance sheet assets:		
Cash and balances with central banks	767.287	
Less:impairment allowance	(8)	**767.279**
Due from credit institutions	2.154.088	
Less: impairment allowance	(94)	**2.153.994**
Derivative financial instruments		**3.904**
Loans and advances to customers at AC:		
Retail lending:		
- Mortgage	10.615	
- Consumer	15.502	
- Affluent banking	9.190	
- Credit cards	582	
Wholesale lending:		
- Large corporate	1.218.596	
- Wealth management	297.843	
- International business banking	473.892	
- Shipping	167.551	
Less:impairment allowance	(55.426)	**2.138.345**
Loans and advances to customers at FVTPL		**11.597**
Investment securities at FVOCI		**476.279**
Investment securities at AC	277.117	
Less:impairment allowance	(546)	**276.571**
Investment securities at FVTPL		**2.014**
Other assets		**286**
Total		**5.830.269**
Credit risk exposures relating to off-balance sheet items (note 28):		
Financial guarantee contracts and other credit related commitments		**167.346**
Loan commitments		**368.946**
Less:impairment allowance		**(394)**
Total		**535.898**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.1 Maximum exposure to credit risk before collateral held (continued)

Amounts under IAS 39

	2017 €'000
Credit risk exposures relating to on-balance sheet assets:	
Cash and balances with central banks	505.904
Due from credit institutions	2.337.755
Derivative financial instruments	811
Loans and advances to customers:	
Retail lending:	
- Mortgage	10.318
- Consumer	12.624
- Affluent banking	631
- Credit cards	514
Wholesale lending:	
- Large corporate	912.676
- Wealth management	268.105
- International business banking	540.421
- Shipping	150.056
Investment securities - debt securities	534.319
Investment securities – other equity	2.018
Other assets	1.153
Total	5.277.305
Credit risk exposures relating to off-balance sheet items (note 28):	
Financial guarantee contracts and other credit related commitments	128.167
Loan commitments	312.544
Total	440.711

4.2.1.2 Due from credit institutions

Following the transition to IFRS 9 at 1 January 2018, the Bank has adjusted where necessary the relevant information for the year ended 2018, in accordance with the revised IFRS 7 'Financial Instruments: Disclosures'. Given that the Bank has adopted IFRS 9 without restatement of comparative information, the information on the Bank's exposure to credit risk from amounts due from credit institutions for the year ended 2018 applicable under IFRS 9, is presented separately from the respective disclosures under IAS 39.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Due from credit institutions (continued)

The credit quality of placements and settlement balances with credit institutions and reverse repurchase agreements receivable from credit institutions held at amortised cost, based on rating agencies' counterparty ratings, is analysed as follows as at 31 December 2018 and 2017:

Amounts under IFRS 9

	2018
At amortised cost:	**€'000**
Aaa to Aa3	**598**
A1 to A3	**125.396**
Baa1 to Baa3	**6.107**
Ba1 to Ba3	**18.604**
Caa1 to Caa3	**1.952.404**
Not rated	**48.744**
Gross carrying amount	**2.151.853**
Less impairment allowance	**(94)**
Carrying amount	**2.151.759**
At FVTPL:	
Caa1 to Caa3	**2.235**
Carrying amount	**2.153.994**

Amounts due from credit institutions include reverse repurchase agreements of €1.982.035 thousand (2017: €2.118.536 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2018, approximately €1.831.397 thousand, are fully secured by EU government and guaranteed bonds, Cyprus government bonds, and bonds issued by the European Financial Stability Fund which are ECB eligible and rated as investment grade.

Amounts under IAS 39

	2017
	€'000
Aaa to Aa3	358
A1 to A3	66.664
Baa1 to Baa3	53.544
Ba1 to Ba3	34.283
Caa1 to Caa3	2.181.299
Not rated	1.607
	2.337.755

The reverse repurchase agreements receivables as at 31 December 2017 represented money market placements fully secured by investment grade bonds. The majority of these bonds were ECB eligible bonds amounting to approximately €2,0 billion.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.2 Due from credit institutions (continued)

The movement in impairment allowance of amounts due from credit institutions in 2018 is as follows:

	12-month ECL €'000
Balance at 1 January, as restated	137
Financial assets that have been derecognised	(47)
Foreign exchange	4
Balance at 31 December	**94**

4.2.1.3 Loans and advances to customers

Following the transition to IFRS 9 on 1 January 2018, the Bank has adjusted where necessary the relevant information for the year ended 2018, in accordance with the revised IFRS 7 'Financial Instruments: Disclosures'. Given that the Bank has adopted IFRS 9 without restatement of comparative information, the information on the Bank's exposure to credit risk from loans and advances to customers for the year ended 2018 applicable under IFRS 9, is presented separately from the respective disclosures under IAS 39, where appropriate.

(a) Credit quality of loans and advances to customers

Applicable after 1 January 2018

Loans and advances to customers carried at amortised cost are classified depending on how ECL is measured.

Accordingly, loans reported as non-impaired include loans for which a '12-month ECL allowance' is recognised as they exhibit no significant increase in credit risk since initial recognition and loans for which a 'Lifetime ECL allowance' is recognised as they exhibit a significant increase in credit risk since initial recognition but are not considered to be in default.

Credit-impaired loans category includes loans that are considered to be in default, for which a loss allowance equal to 'Lifetime ECL' is recognised.

Loans and advances to customers carried at FVTPL are not subject to ECL measurement and therefore are not included in the quantitative information provided in the below sections for loans and advances measured at amortised cost, except where indicated.

The Bank's accounting policy regarding impairment of financial assets is set out in note 2.2.16.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Applicable before 1 January 2018

Loans and advances to customers are classified as "neither past due nor impaired", "past due but not impaired" and "impaired". Loans reported as "neither past due nor impaired" include loans with no contractual payments in arrears and no other indications of impairment. "Past due but not impaired" category includes loans with contractual payments overdue by at least one day, but which are not impaired unless specific information indicates to the contrary. "Impaired" loans are loans that carry an individual impairment allowance.

The Bank's accounting policy regarding impairment of financial assets is set out in note 2.2.16.

Amounts under IFRS 9

The following tables present the total gross carrying and nominal amount, representing the maximum exposure to credit risk before the impairment allowance, of loans and advances and credit related commitments respectively that are classified as non-impaired (Stage 1 and Stage 2) and those classified as credit-impaired (stage 3). They also present the total impairment allowance recognised in respect of all loans and advances and credit related commitments, based on how the respective impairment allowance has been calculated, the carrying amount of loans and advances, as well as the value of collateral held to mitigate credit risk. In addition, the value of collateral presented in the tables below is capped to the respective gross loan amount.

The following table presents information about the credit quality of the gross carrying amount of loans and advances to customers carried at amortised cost, the nominal exposures of credit related commitments and the respective impairment allowance, as well as the carrying amount of loans and advances to customers carried at FVTPL as at 31 December 2018:

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2018								
	Non-impaired		Credit-impaired		Impairment allowance				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total gross carrying amount / nominal exposure	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	**Carrying amount**	**Value of collateral**
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	**€'000**	**€'000**
Loans and advances to customers at amortised cost:									
Retail lending:									
- Mortgage	10.615	-	-	10.615	-	-	-	**10.615**	**10.615**
- Consumer	15.469	7	26	15.502	91	-	26	**15.385**	**846**
- Affluent banking	8.970	219	-	9.189	1	1	-	**9.187**	**8.612**
- Credit card	564	2	17	583	2	-	7	**574**	**68**
Wholesale lending:									
- Large corporate	1.091.519	73.413	53.664	1.218.596	758	1.136	32.199	**1.184.503**	**954.361**
- Wealth management	241.124	21.089	35.630	297.843	91	135	20.923	**276.694**	**280.864**
-International business banking	473.853	34	5	473.892	-	-	5	**473.887**	**471.154**
- Shipping	167.545	6	-	167.551	51	-	-	**167.500**	**167.235**
	2.009.659	**94.770**	**89.342**	**2.193.771**	**994**	**1.272**	**53.160**	**2.138.345**	**1.893.755**
Loans and advances to customers at FVTPL:									
- Large corporate	**11.597**	**-**	**-**	**11.597**	**-**	**-**	**-**	**11.597**	**11.596**
Total	**2.021.256**	**94.770**	**89.342**	**2.205.368**	**994**	**1.272**	**53.160**	**2.149.942**	**1.905.351**
Value of collateral	**1.746.654**	**80.367**	**78.330**	**1.905.351**					
Credit related commitments:									
Financial guarantee contracts and other credit related commitments	161.557	5.346	443	167.346	40	40	-	**167.266**	
Loan commitments	340.216	28.344	386	368.946	264	50	-	**368.632**	
	501.773	**33.690**	**829**	**536.292**	**304**	**90**	**-**	**535.898**	
Value of collateral	**109.927**	**3.099**	**358**	**113.384**					

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The Bank assesses the credit quality of its loans and advances to customers and credit related commitments that are subject to ECL using internal credit rating systems for the wholesale portfolio which are based on a variety of quantitative and qualitative factors, while the credit quality of the retail portfolio is based on the allocation of risk classes into homogeneous pools.

The following tables present the risk distribution of the gross carrying amount of loans and advances to customers carried at amortised cost and the nominal exposure of credit related commitments based on the credit quality classification categories and stage allocations:

	31 December 2018			
	Non-impaired		Credit-impaired	
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	**Total gross carrying amount / nominal exposure €'000**
Loans and advances to customers:				
Retail lending:				
- Mortgage				
Strong	10.615	-	-	**10.615**
- Consumer				
Strong	3.056	-	-	**3.056**
Satisfactory	12.413	1	-	**12.414**
Watch list	-	6	-	**6**
Impaired	-	-	26	**26**
- Affluent banking				
Strong	1.087	-	-	**1.087**
Satisfactory	7.883	219	-	**8.102**
- Credit card				
Strong	338	-	-	**338**
Satisfactory	226	2	-	**228**
Impaired	-	-	17	**17**
Wholesale lending:				
- Large corporate				
Strong	577.566	-	-	**577.566**
Satisfactory	513.451	44.875	-	**558.326**
Watch list	502	28.538	-	**29.040**
Impaired	-	-	53.664	**53.664**
- Wealth management				
Strong	21.248	-	-	**21.248**
Satisfactory	219.876	18.916	-	**238.792**
Watch list	-	2.173	-	**2.173**
Impaired	-	-	35.630	**35.630**
- International business banking				
Strong	459.271			**459.271**
Satisfactory	14.582	34		**14.616**
Impaired	-	-	5	**5**
- Shipping				
Strong	108.955	-	-	**108.955**
Satisfactory	58.590	6	-	**58.596**
	2.009.659	**94.770**	**89.342**	**2.193.771**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

	31 December 2018			
	Non-impaired		Credit-impaired	Total gross carrying amount / nominal exposure
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	€'000
Credit related commitments:				
Financial guarantee contracts and other credit related commitments:				
Strong	106.284	-	-	**106.284**
Satisfactory	55.253	3.075	-	**58.328**
Watch list	20	2.271	443	**2.734**
Loan commitments:				
Strong	138.983	-	-	**138.983**
Satisfactory	201.189	25.820	-	**227.009**
Watch list	44	2.524	386	**2.954**
	501.773	**33.690**	**829**	**536.292**

The table below depicts the internal credit rating bands (MRA rating scale or equivalent) for the wholesale portfolio that correspond to the credit quality classification categories presented in the above tables.

	Wholesale Lending Internal Credit Rating
Credit quality classification categories	
Strong	CR1 - CR2
Satisfactory	CR3 - CR6
Watch list	CR7
Impaired	CR7 - CR10

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following table presents the movement of the gross carrying amounts for loans and advances to customers carried at amortised cost by stage and is calculated by reference to the opening and closing balances for the reporting year from 1 January 2018 to 31 December 2018:

	31 December 2018						
	Wholesale lending			Retail lending			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Gross carrying amount at 1 January	1.745.317	85.976	99.048	24.061	50	48	**1.954.500**
New financial assets originated or purchased	467.894	-	-	13.457	-	-	**481.351**
Transfers:							
- To 12-month ECL	13.605	(13.279)	(326)	(238)	236	2	**-**
- To lifetime ECL not credit-impaired	(49.519)	49.593	(74)	34	(38)	4	**-**
- To lifetime ECL credit- impaired	(1.271)	(27.677)	28.948	-	4	(4)	**-**
Financial assets derecognised	(2.394)	(700)	-	(299)	-	-	**(3.393)**
Amounts written off	-	-	(25.689)	-	-	(12)	**(25.701)**
Repayments	(240.435)	(6.561)	(14.481)	(2.406)	(16)	(10)	**(263.909)**
Foreign exchange difference and other movements	40.844	7.190	1.873	1.009	(8)	15	**50.923**
Gross carrying amount at 31 December	**1.974.041**	**94.542**	**89.299**	**35.618**	**228**	**43**	**2.193.771**
Less impairment allowance	(900)	(1.270)	(53.127)	(94)	(2)	(33)	**(55.426)**
Carrying amount at 31 December	**1.973.141**	**93.272**	**36.172**	**35.524**	**226**	**10**	**2.138.345**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The following table presents the movement of the nominal amounts of financial guarantee contracts and other credit related commitments, and loan commitments by stage and is calculated by reference to the opening and closing balances for the reporting year from 1 January 2018 to 31 December 2018:

	31 December 2018						
	Loan commitments			Financial guarantee contracts and other credit related commitments			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Nominal amount at 1 January	309.691	2.203	650	128.050	-	118	**440.712**
Net increase/(decrease)	57.357	(656)	(299)	39.172	-	6	**95.580**
Transfers:							
- To 12-month ECL	4.703	(4.703)	-	-	-	-	**-**
- To lifetime ECL not credit-impaired	(31.519)	31.520	(1)	(5.346)	5.346	-	**-**
- To lifetime ECL credit-impaired	(16)	(20)	36	(319)	-	319	**-**
Nominal amount at 31 December	**340.216**	**28.344**	**386**	**161.557**	**5.346**	**443**	**536.292**

The movement of the impairment allowances for loans and advances to customers in 2018 is as follows, under IFRS 9:

	31 December 2018			
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Total €'000
Balance at 1 January, as restated (note 2.3.2)	1.798	1.984	67.153	**70.935**
New financial assets originated or purchased	564	-	-	**564**
Transfers:				
- To 12-month ECL	228	(228)	-	**-**
- To lifetime ECL not credit-impaired	(309)	348	(39)	**-**
- To lifetime ECL credit-impaired	(15)	(1.017)	1.032	**-**
Impact of ECL net remeasurement	(1.293)	185	10.715	**9.607**
Amounts written off (previously provided)	-	-	(25.701)	**(25.701)**
Foreign exchange	21	-	-	**21**
Balance at 31 December	**994**	**1.272**	**53.160**	**55.426**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

The movement of the impairment allowance for expected credit losses on financial guarantee contracts and other credit related commitments and loan commitments is as follows:

	31 December 2018				
	Loan commitments		Financial guarantee contracts and other credit related commitments		
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Total €'000
Balance at 1 January, as restated (note 2.3.2)	124	4	121	-	**249**
Net increase	212	-	34	-	**246**
Transfers:					
- To 12-month ECL	-	-	-	-	**-**
- To lifetime ECL not credit-impaired	(22)	22	(21)	21	**-**
- To lifetime ECL credit-impaired	-	-	-	-	**-**
Impact of ECL net remeasurement	(50)	24	(94)	19	**(101)**
Balance at 31 December	**264**	**50**	**40**	**40**	**394**

Impairment allowance for expected credit losses on financial guarantee contracts and other credit related commitments and loan commitments is presented within "Other liabilities" (note 25).

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Credit-impaired loans and advances to customers

The following table presents the ageing analysis of credit-impaired (Stage 3) loans and advances by product line at their gross carrying amounts, as well as the respective cumulative impairment allowances and the value of collaterals held to mitigate credit risk.

	31 December 2018								
	Retail lending				Wholesale lending				
	Mortgage €'000	Consumer €'000	Affluent banking €'000	Credit card €'000	Large corporate €'000	Wealth management €'000	International business banking €'000	Shipping €'000	**Lifetime ECL credit-impaired €'000**
Up to 90 days	-	-	-	-	18.969	11.509	-	-	**30.478**
90 to 179 days	-	17	-	12	286	519	2	-	**836**
180 to 360 days	-	-	-	1	4.028	1.675	2	-	**5.706**
More than 360 days	-	9	-	4	30.381	21.927	1	-	**52.322**
Total gross carrying amount	**-**	**26**	**-**	**17**	**53.664**	**35.630**	**5**	**-**	**89.342**
Impairment allowance	-	(26)	-	(7)	(32.199)	(20.923)	(5)	-	**(53.160)**
Carrying amount	**-**	**-**	**-**	**10**	**21.465**	**14.707**	**-**	**-**	**36.182**
Value of collateral	**-**	**-**	**-**	**-**	**46.830**	**31.498**	**2**	**-**	**78.330**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Amounts under IAS 39

The following tables present the total gross amount, representing the maximum exposure to credit risk before impairment allowance, of loans and advances that are classified as non-impaired (i.e. “neither past due nor impaired” and “past due but not impaired”) and those classified as impaired. They also present the total impairment allowance recognised in respect of all loans and advances, the total net amount, as well as the value of collateral held as security to mitigate credit risk.

The value of collateral presented in the tables below is capped to the respective gross loan amount.

	31 December 2017					
	Non-impaired					
	Neither past due nor impaired	Past due but not impaired	Impaired	Total gross amount	Impairment allowance	**Total net amount**
	€’000	€’000	€’000	€’000	€’000	**€’000**
Retail lending:						
- Mortgage	10.318	-	-	10.318	-	**10.318**
- Consumer	11.141	1.501	45	12.687	(63)	**12.624**
- Affluent banking	634	-	-	634	(3)	**631**
- Credit card	516	-	3	519	(5)	**514**
Wholesale lending:						
- Large corporate	888.363	6.267	56.986	951.616	(38.940)	**912.676**
- Wealth management	252.695	4.787	42.052	299.534	(31.429)	**268.105**
- International business banking	539.802	851	11	540.664	(243)	**540.421**
- Shipping	145.609	5.441	-	151.050	(994)	**150.056**
Total	**1.849.078**	**18.847**	**99.097**	**1.967.022**	**(71.677)**	**1.895.345**
Value of collateral	**1.700.476**	**9.115**	**80.985**	**1.790.576**		

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired as at year end can be assessed by reference to the Bank's standard grading system.

The following table presents the risk classification of loans and advances at their gross amount that are neither past due nor impaired, based on the Bank's credit assessment methodology:

	31 December 2017
	Total gross amount
	€'000
Loans and advances to customers:	
- Strong	1.217.847
- Satisfactory	571.001
- Watch list	60.230
	1.849.078

Loans and advances past due but not impaired

The following table presents the ageing analysis of past due but not impaired loans and advances by product line at their gross amounts before any impairment allowance:

	31 December 2017								
	Retail lending				Wholesale lending				
	Mortgage €'000	Consumer €'000	Affluent banking €'000	Credit card €'000	Large corporate €'000	Wealth management €'000	International business banking €'000	Shipping €'000	**Total €'000**
Up to 29 days	-	1.495	-	-	6.050	4.374	849	5.441	**18.209**
30 to 59 days	-	2	-	-	138	73	2	-	**215**
60 to 89 days	-	4	-	-	79	340	-	-	**423**
90 to 179 days	-	-	-	-	-	-	-	-	-
180 to 360 days	-	-	-	-	-	-	-	-	-
More than 360 days	-	-	-	-	-	-	-	-	-
Total	**-**	**1.501**	**-**	**-**	**6.267**	**4.787**	**851**	**5.441**	**18.847**
Value of collateral	**-**	**1.001**	**-**	**-**	**4.912**	**2.394**	**808**	**-**	**9.115**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(a) Credit quality of loans and advances to customers (continued)

Impaired loans and advances

As at 31 December 2017, impaired loans and advances amounted to €99.097 thousand.

Movement of impairment allowance

The movement of the impairment allowances for loans and advances to customers in 2017 is as follows, under IAS 39:

	31 December 2017 Total €'000
Balance at 1 January	80.355
Impairment loss for the year	15.800
Foreign exchange	(45)
Amounts written off (previously provided)	(24.433)
Balance at 31 December	**71.677**

(b) Geographical and industry concentrations of loans and advances to customers

The Bank holds diversified portfolios across markets and countries and implements limits on concentrations arising from the geographical location or the activity of groups of borrowers that could be similarly affected by changes in economic or other conditions, in order to mitigate credit risk.

The tables in note 4.2.1.5 break down the Bank's exposure into loans and advances to customers and exposures of credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line, industry and geographical region and impairment allowance by product line, industry and geographical region.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance

Modifications of the loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors as well as due to the potential deterioration in the borrowers' financial condition. The Bank has employed a range of forbearance solutions in order to enhance the management of customer relationships and the effectiveness of collection efforts, as well as to improve the recoverability of cash flows and minimise credit losses for both retail and wholesale portfolios.

The following tables present an analysis of the Bank's forborne activities for loans measured at amortised cost. In order to align with the quantitative information provided based on revised IFRS 7 requirements, the relevant tables below are presented on a gross carrying amount basis, while cumulative impairment allowance is presented separately, in line with the Bank's internal credit risk monitoring and reporting.

The following table presents a summary of the types of the Bank's forborne activities under IFRS 9:

	2018 €'000
Forbearance measures:	
Interest only schedule	**20.310**
Reduced payment schedule	**16.945**
Term extension	**41.420**
Arrears capitalisation	**6.537**
Grace period	**1.577**
Operational restructuring	**40**
Total gross carrying amount	**86.829**
Less cumulative impairment allowance	**(17.308)**
Total carrying amount	**69.521**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance (continued)

The following table presents a summary of the types of the Bank's forborne activities under IAS 39:

	2017 €'000
Forbearance measures:	
Interest only schedule	23.719
Reduced payment schedule	20.868
Term extension	51.354
Arrears capitalisation	2.804
Total amount net of impairment allowance	98.745

The following table presents a summary of the credit quality of forborne loans and advances to customers under IFRS 9:

	31 December 2018		
	Total loans & advances at amortised cost €'000	**Forborne loans & advances €'000**	**% of forborne loans & advances to total loans & advances**
Gross carrying amount:			
12-month ECL	2.009.659	2.018	0
Lifetime ECL not credit-impaired	94.770	40.147	42,4
Lifetime ECL credit-impaired	89.342	44.664	50,0
Total gross carrying amount	**2.193.771**	**86.829**	**3,9**
Impairment allowance:			
12-month ECL	994	1	0
Lifetime ECL not credit-impaired	1.272	575	45,2
Lifetime ECL credit-impaired	53.160	16.732	31,5
Total impairment allowance	**55.426**	**17.308**	**31,2**
Carrying amount	**2.138.345**	**69.521**	**3,2**
Collateral received	**1.893.755**	**79.859**	

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance (continued)

The following table presents a summary of the credit quality of forborne loans and advances to customers under IAS 39:

	31 December 2017		
	Total loans & advances €'000	**Forborne loans & advances €'000**	**% of forborne loans & advances to total loans & advances**
Gross carrying amount:			
Neither past due nor impaired	1.849.078	84.174	4,6
Past due but not impaired	18.847	384	2,0
Past due and impaired	99.097	27.419	27,7
Total gross carrying amount	**1.967.022**	**111.977**	**5,7**
Impairment allowance	**(71.677)**	**(13.232)**	**18,5**
Total net amount	**1.895.345**	**98.745**	**5,2**
Collateral received	**1.790.576**	**104.669**	

The following table presents the movement of forborne loans and advances under IFRS 9:

	2018 €'000
Gross carrying amount at 1 January	**111.977**
Forbearance measures in the year	**23.753**
Repayment of loans	**(13.405)**
Forborne loans derecognised	**(700)**
Write-offs of forborne loans	**(4.749)**
Loans & advances that exited forbearance status	**(33.404)**
Other	**3.357**
Gross carrying amount	**86.829**
Less cumulative impairment allowance	**(17.308)**
Carrying amount at 31 December	**69.521**

The following table presents the movement of forborne loans and advances under IAS 39:

	2017 €'000
Carrying amount at 1 January	125.944
Forbearance measures in the year	9.334
Repayment of loans	(28.274)
Write-offs of forborne loans	(2.095)
Loans & advances that exited forbearance status	(8.839)
Other	2.675
Carrying amount at 31 December	**98.745**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance (continued)

The following table presents the Bank's exposure to forborne loans and advances by product line under IFRS 9:

	2018
	€'000
Retail lending:	
- Consumer	**3**
- Affluent banking	**207**
Wholesale lending:	
- Large corporate	**45.954**
- Wealth management	**40.665**
Total gross carrying amount	**86.829**
Less cumulative impairment allowance	**(17.308)**
Total carrying amount	**69.521**

The following table presents the Bank's exposure to forborne loans and advances by product line under IAS 39:

	2017
	€'000
Retail lending:	
- Consumer	19
- Affluent banking	23
Wholesale lending:	
- Large corporate	54.622
- Wealth management	44.081
Net carrying amount	**98.745**

The following table presents the Bank's exposure to forborne loans and advances by geographical region under IFRS 9:

	2018
	€'000
Cyprus	**78.969**
Other European countries	**6.596**
Other countries	**1.264**
Total gross carrying amount	**86.829**
Less cumulative impairment allowance	**(17.308)**
Total carrying amount	**69.521**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(c) Forbearance (continued)

The following table presents the Bank's exposure to forborne loans and advances by geographical region under IAS 39:

	2017
	€'000
Cyprus	92.983
Other European countries	4.699
Other countries	1.063
Total carrying amount	**98.745**

The following table provides information on modifications due to forbearance measures on lending exposures which have not resulted in derecognition. Such financial assets were modified while they had an impairment allowance measured at an amount equal to lifetime ECL.

Modified lending exposures	**2018**
	€'000
Loans modified during the year with impairment allowance measured at an amount equal to lifetime ECL	
Carrying amount	**37.087**
Loans modified since initial recognition at a time when impairment allowance was based on lifetime ECL	
Gross carrying amount at 31 December for which impairment allowance has changed to 12-month ECL measurement	**6.298**

The contractual amount outstanding on lending exposures that were written off during the year ended 31 December 2018 and that are still subject to enforcement activity is €20.458 thousand (2017: €9.428 thousand).

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(d) Collaterals

The Loan-to-Value (LTV) ratio of the Bank's lending reflects the gross loan exposure at the balance sheet date over the market value of the property held as collateral.

The LTV ratio as at 31 December 2018, under IFRS 9, is presented below:

	2018 €'000
Less than 50%	**374.873**
50%-70%	**236.775**
71%-80%	**45.254**
81%-90%	**41.676**
91%-100%	**32.667**
101%-120%	**45.371**
121%-150%	**33.731**
Greater than 150%	**60.123**
Total exposure	**870.470**
Average LTV	**75%**

The LTV ratio as at 31 December 2017, under IAS 39, is presented below:

	2017 €'000
Less than 50%	305.183
50%-70%	199.521
71%-80%	23.328
81%-90%	37.341
91%-100%	29.023
101%-120%	84.540
121%-150%	22.153
Greater than 150%	80.232
Total exposure	**781.321**
Average LTV	**83%**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.3 Loans and advances to customers (continued)

(d) Collaterals (continued)

The breakdown of collateral and guarantees for loans and advances to customers at amortised cost is presented below:

	31 December 2018 Value of collateral received				
	Real Estate €'000	Financial €'000	Other Collateral €'000	Total €'000	Guarantees received €'000
Retail lending	16.299	3.832	10	20.141	-
Wholesale lending	812.453	843.209	202.752	1.858.414	15.200
Total	**828.752**	**847.041**	**202.762**	**1.878.555**	**15.200**

	31 December 2017 Value of collateral received				
	Real Estate €'000	Financial €'000	Other Collateral €'000	Total €'000	Guarantees received €'000
Retail lending	98.789	348.240	914	447.943	-
Wholesale lending	589.868	590.886	161.879	1.342.633	3.648
Total	**688.657**	**939.126**	**162.793**	**1.790.576**	**3.648**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities

Following the transition to IFRS 9 at 1 January 2018, the Bank has adjusted where necessary the relevant information for the year ended 2018, in accordance with the revised IFRS 7 'Financial Instruments: Disclosures'. Given that the Bank has adopted IFRS 9 without restatement of comparative information, the information on the Bank's exposure to credit risk from debt securities for the year ended 2018 applicable under IFRS 9, is presented separately from the respective disclosures under IAS 39.

The movement in impairment allowance of investment securities in 2018 is as follows:

	Investment securities at FVOCI 12-month ECL €'000	**Investment securities at amortised cost 12-month ECL €'000**
Balance at 1 January, as restated (note 2.3.2)	1.114	748
New financial assets purchased	245	245
Impact of ECL net remeasurement	(392)	(446)
Financial assets disposed during the year	(148)	-
Financial assets redeemed during the year	(83)	(1)
Foreign exchange	(3)	-
Balance at 31 December	**733**	**546**

During the year, the impairment allowance of the investment securities of the Bank decreased by €583 thousand, mainly due to the improvement of the credit quality of the Cyprus government bonds. The decrease relative to these debt securities amounts to €459 thousand.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.4 Debt securities (continued)

The table below presents an analysis of debt securities by external credit rating agency designation at 31 December 2018 based on Moody's ratings or their equivalent under IFRS 9:

	31 December 2018		
	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Total €'000
Aaa	260.542	-	**260.542**
Aa1 to Aa3	25.736	-	**25.736**
A1 to A3	2.521	-	**2.521**
Baa1 to Baa3	1.298	-	**1.298**
Ba1 to Ba3	101.168	277.117	**378.285**
B1 to B3	65.956	-	**65.956**
Caa1 to Caa3	11.913	-	**11.913**
Not rated	7.145	-	**7.145**
Gross carrying amount	**476.279**	**277.117**	**753.396**
Impairment allowance	-	(546)	**(546)**
Carrying amount	**476.279**	**276.571**	**752.850**

All debt securities are classified in 12-month ECL category as at 31 December 2018.

The following table presents an analysis of debt securities by external credit rating agency under IAS 39:

	31 December 2017		
	Available-for-sale debt securities €'000	Held-to-maturity investments €'000	Total €'000
Aaa	41.854	13.679	**55.533**
Aa1 to Aa3	-	19.191	**19.191**
A1 to A3	-	4.316	**4.316**
Baa1 to Baa3	-	1.521	**1.521**
Ba1 to Ba3	172.698	193.530	**366.228**
B1 to B3	63.578	-	**63.578**
Caa1 to Caa3	16.673	-	**16.673**
Not rated	7.279	-	**7.279**
Total	**302.082**	**232.237**	**534.319**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk

(a) Geographical sectors

The following tables break down the Bank's main exposures into balance sheet assets and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line and geographical region and impairment allowance by product line and geographical region, under IFRS 9. For this table, the Bank has allocated exposures to regions based on the country of activity/economic interest of counterparties.

	31 December 2018												
	Cyprus				Other European countries				Other countries				
	Gross carrying/nominal amount				Gross carrying/nominal amount				Gross carrying/nominal amount				
	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	12-month ECL €'000	Lifetime ECL not credit-impaired €'000	Lifetime ECL credit-impaired €'000	Impairment allowance €'000	Total €'000
Loans and advances to customers													
Retail lending:													
- Mortgage	10.615	-	-	-	-	-	-	-	-	-	-	-	**10.615**
- Consumer	15.469	7	26	(117)									**15.385**
- Affluent banking	8.767	219	-	(2)	203	-	-	-	-	-	-	-	**9.187**
- Credit cards	560	2	17	(9)	4	-	-	-	-	-	-	-	**574**
Wholesale lending:													
- Large corporate	476.106	61.019	52.515	(33.443)	587.497	11.906	-	(224)	39.513	488	1.149	(426)	**1.196.100**
- Wealth management	163.928	14.629	34.860	(20.348)	68.758	6.460	649	(676)	8.438	-	121	(125)	**276.694**
- International business banking	66.923	-	-	-	36.612	24	5	(5)	370.318	10	-	-	**473.887**
- Shipping	15.427	-	-	(11)	135.983	1	-	(38)	16.135	5	-	(2)	**167.500**
Total	**757.795**	**75.876**	**87.418**	**(53.930)**	**829.057**	**18.391**	**654**	**(943)**	**434.404**	**503**	**1.270**	**(553)**	**2.149.942**
Off-balance sheet items													
Financial guarantee contracts and other credit related commitments	146.370	5.087	440	(80)	14.686	259	-	-	502	-	2	-	**167.266**
Loan commitments	292.404	23.953	353	(311)	26.877	4.390	-	(1)	20.935	1	33	(2)	**368.632**
Total	**438.774**	**29.040**	**793**	**(391)**	**41.563**	**4.649**	**-**	**(1)**	**21.437**	**1**	**35**	**(2)**	**535.898**

As at 31 December 2018, the carrying amount of the Bank's loans and advances to customers measured at FVTPL amounted to €11.597 thousand, which was included in wholesale lending portfolio in other countries.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

	31 December 2018				
	Multilateral development banks €'000	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets					
Balances with central banks	-	759.293	-	-	**759.293**
Due from credit institutions	-	48.534	2.001.071	104.483	**2.154.088**
Derivative financial instruments	-	103	3.717	84	**3.904**
Investment securities at FVOCI	123.077	101.168	252.034	-	**476.279**
Investment securities at AC	-	277.117	-	-	**277.117**
Investment securities mandatorily at FVTPL	-	1.897	117	-	**2.014**
Other assets	-	208	25	53	**286**
Gross carrying amount	**123.077**	**1.188.320**	**2.256.964**	**104.620**	**3.672.981**
Balances with central banks	-	8	-	-	**8**
Due from credit institutions	-	-	94	-	**94**
Derivative financial instruments	-	-	-	-	**-**
Investment securities at AC	-	546	-	-	**546**
Other assets	-	-	-	-	**-**
Impairment allowance	**-**	**554**	**94**	**-**	**648**
Carrying amount	**123.077**	**1.187.766**	**2.256.870**	**104.620**	**3.672.333**

All assets shown in the table above are classified in 12-month ECL category.

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Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(a) Geographical sectors (continued)

The following table breaks down the Bank's main exposures into balance sheet assets and credit related commitments at their net carrying amount and nominal amount respectively by product line and geographical region, under IAS 39.

	31 December 2017			
	Cyprus €'000	Other European countries €'000	Other countries €'000	**Total €'000**
On-balance sheet assets				
Due from credit institutions	50.389	2.231.359	56.007	**2.337.755**
Derivative financial instruments	258	491	62	**811**
Loans and advances to customers:				
Retail lending:				
- Mortgage	10.318	-	-	**10.318**
- Consumer	12.624	-	-	**12.624**
- Affluent banking	631	-	-	**631**
- Credit cards	505	3	6	**514**
Wholesale lending:				
- Large corporate	482.398	385.423	44.855	**912.676**
- Wealth management	191.024	70.030	7.051	**268.105**
- International business banking	105.711	68.596	366.114	**540.421**
- Shipping	21.651	112.106	16.299	**150.056**
Investment securities – debt securities	314.241	180.850	39.228	**534.319**
Other assets	250	867	36	**1.153**
Total	**1.190.000**	**3.049.725**	**529.658**	**4.769.383**
Off-balance sheet items				
Financial guarantee contracts and other credit related commitments	122.800	4.905	462	**128.167**
Loan commitments	251.354	28.432	32.758	**312.544**
Total	**374.154**	**33.337**	**33.220**	**440.711**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors

The following tables break down the Bank’s main exposures into balance sheet assets and credit related commitments at their gross carrying amount and nominal amount respectively by stage, product line and industry sector and impairment allowance by product line and industry sector, under IFRS 9.

31 December 2018

	Commerce & services				Private Individuals				Construction				Manufacturing				Other				
	Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				Gross carrying amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Imp. allowance	Total carrying amount
	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000	€’000
Loans and advances to customers																					
Retail lending:																					
- Mortgage	-	-	-	-	10.615	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**10.615**
- Consumer	12.411	-	9	(100)	3.058	7	17	(17)	-	-	-	-	-	-	-	-	-	-	-	-	**15.385**
- Affluent banking	63	-	-	-	8.907	219	-	(2)	-	-	-	-	-	-	-	-	-	-	-	-	**9.187**
- Credit cards	91	2	4	(6)	473	-	13	(3)	-	-	-	-	-	-	-	-	-	-	-	-	**574**
Wholesale lending:																					
- Large corporate	940.973	54.601	44.525	(27.844)	14.221	1.540	6.668	(4.123)	27.862	5.517	-	(81)	119.183	11.755	1.356	(1.321)	877	-	1.115	(724)	**1.196.100**
- Wealth management	124.949	13.176	23.610	(12.843)	113.443	7.913	12.020	(8.306)	2.725	-	-	-	-	-	-	-	7	-	-	-	**276.694**
- International business banking	424.685	24	3	(3)	4.807	10	2	(2)	8	-	-	-	44.352	-	-	-	1	-	-	-	**473.887**
- Shipping	167.536	5	-	(51)	9	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**167.500**
Total	**1.670.708**	**67.808**	**68.151**	**(40.847)**	**155.533**	**9.690**	**18.720**	**(12.453)**	**30.595**	**5.517**	**-**	**(81)**	**163.535**	**11.755**	**1.356**	**(1.321)**	**885**	**-**	**1.115**	**(724)**	**2.149.942**

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

As at 31 December 2018, the carrying amount of the Bank's loans and advances to customers measured at FVTPL amounted to €11.597 thousand and was included in the wholesale lending portfolio in commerce and services industry.

31 December 2018

	Central banks €'000	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets									
Balances with central banks	759.293	-	-	-	-	-	-	-	**759.293**
Due from credit institutions	-	-	-	2.154.088	-	-	-	-	**2.154.088**
Derivative financial instruments	-	-	92	3.720	1	-	90	1	**3.904**
Investment securities at FVOCI	-	110.039	-	125.185	-	-	-	241.055	**476.279**
Investment securities at AC	-	277.117	-	-	-	-	-	-	**277.117**
Investment securities mandatorily at FVTPL	-	-	-	1.897	-	12	105	-	**2.014**
Other assets	-	-	253	-	-	-	-	33	**286**
Gross carrying amount	**759.293**	**387.156**	**345**	**2.284.890**	**1**	**12**	**195**	**241.089**	**3.672.981**
Balances with central banks	8	-	-	-	-	-	-	-	**8**
Due from credit institutions	-	-	-	94	-	-	-	-	**94**
Derivative financial instruments	-	-	-	-	-	-	-	-	**-**
Investment securities – debt securities	-	546	-	-	-	-	-	-	**546**
Other assets	-	-	-	-	-	-	-	-	**-**
Impairment allowance	**8**	**546**	**-**	**94**	**-**	**-**	**-**	**-**	**648**
Carrying amount	**759.285**	**386.610**	**345**	**2.284.796**	**1**	**12**	**195**	**241.089**	**3.672.333**

Eurobank Cyprus Ltd

Notes to the financial statements

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

	31 December 2018																
	Sovereign				Corporate				Banks & financial institutions				Private Individuals				
	Nominal amount				Nominal amount				Nominal amount				Nominal amount				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Impairment allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Impairment allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Impairment allowance	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	impairment allowance	Total
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Off-balance sheet items																	
Financial guarantee contracts and other credit related commitments	1	-	-	-	154.848	5.331	438	80	266	-	-	-	6.442	15	5	-	**167.266**
Loan commitments	-	-	-	-	299.627	27.901	288	310	50	-	-	-	40.539	443	98	4	**368.632**
Total	1	-	-	-	454.475	33.232	726	390	316	-	-	-	46.981	458	103	4	**535.898**

All assets shown in the table above are classified in 12-month ECL category.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.5 Concentration of credit risk (continued)

(b) Industry sectors (continued)

The following table breaks down the Bank's main exposures into balance sheet assets and credit related commitments at their net carrying amount and nominal amount respectively by product line and industry sector, under IAS 39.

31 December 2017

	Sovereigns €'000	Commerce & services €'000	Banks & financial institutions €'000	Private individuals €'000	Constru-ction €'000	Manufa-cturing €'000	Other €'000	**Total €'000**
On-balance sheet assets								
Due from credit institutions	-	-	2.337.755	-	-	-	-	**2.337.755**
Derivative financial instruments	-	102	493	-	-	216	-	**811**
Loans and advances to customers:								
Retail lending:								
- Mortgage	-	-	-	10.318	-	-	-	**10.318**
- Consumer	-	8.304	-	4.312	-	8	-	**12.624**
- Affluent banking	-	-	-	631	-	-	-	**631**
- Credit cards	-	106	-	406	2	-	-	**514**
Wholesale lending:								
- Large corporate	-	802.870	-	19.398	35.808	53.980	620	**912.676**
- Wealth management	-	149.498	-	115.637	2.932	36	2	**268.105**
- International business banking	-	474.643	-	25.464	752	39.560	2	**540.421**
- Shipping	-	150.051	-	5	-	-	-	**150.056**
Investment securities								
- debt securities	350.805	-	41.854	-	-	-	141.660	**534.319**
Other assets	-	214	868	-	-	-	71	**1.153**
Total	**350.805**	**1.585.788**	**2.380.970**	**176.171**	**39.494**	**93.800**	**142.355**	**4.769.383**

	Sovereigns €'000	Banks & financial institutions €'000	Private individuals €'000	Corporate €'000	**Total €'000**
Off-balance sheet items					
Financial guarantee contracts and other credit related commitments	1	4.235	6.616	117.315	**128.167**
Loan commitments	-	75	37.904	274.565	**312.544**
Total	**1**	**4.310**	**44.520**	**391.880**	**440.711**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.1 Credit risk (continued)

4.2.1.6 Other financial assets

Cash and cash equivalents

The Bank held cash and cash equivalents of €2.871.275 thousand at 31 December 2018 (2017: €2.797.563 thousand). The cash and cash equivalents are held with central banks, which are not rated, and financial institution counterparties that are rated at as shown in note 4.2.1.2.

Investment securities – equity shares

The Bank held equity shares of €117 thousand at 31 December 2018 (2017: €160 thousand) which are not rated.

Investment securities – UCIT funds

The Bank held UCIT funds of €1.897 thousand at 31 December 2018 (2017: €1.858 thousand) which are not rated.

4.2.2 Market risk

The Bank takes on exposure to market risks which is the risk of potential financial loss due to an adverse change in market variables. Changes in interest rates, foreign exchange rates, credit spreads, equity prices and other relevant factors, such as the implied volatilities of the above, can affect the Bank's income or the fair value of its financial instruments. The market risks the Bank is exposed to are managed and monitored by the Market, Counterparty and Liquidity Risk Unit (MCLU).

The MCLU reports to the Bank's Risk Executive, and its main responsibilities include:

- Monitoring of all key market & Interest Rate Risk in the Banking Book (IRRBB) risk indicators (VaR, sensitivities, interest rate gaps) of the Bank;
- Implementation of Stress Testing methodologies for market risk (historical and hypothetical) and IRRBB;
- Monitoring and reporting of market, counterparty and IRBB risk limits utilisation;
- Measuring and monitoring the liquidity of the Bank; and
- Development, maintenance and expansion of risk management infrastructure.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected adverse movements arise. The Bank's Risk Committee sets limits on the level of mismatch of interest rate repricing that may be undertaken and exposures are monitored daily.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Risk Committee sets limits on the level of exposures which are monitored daily.

Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. The equity price risk that the Bank undertakes arises mainly from equity positions.

Implied volatilities

(i) VaR summary for 2018 and 2017

The Bank's monitoring of market risk is managed and monitored using 'Value at Risk' (VaR) methodology.

VaR is a methodology used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon. The VaR that the Bank measures is an estimate based upon a 99% confidence level, holding period 10D. The distribution is calculated using exponentially weighted moving average (EWMA) of 6 months historical data. The methodology used for the calculation is Monte Carlo simulation (full repricing).

The VaR models are designed to measure market risk in a normal market environment. It is assumed that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to certain limitations. Given this, actual outcomes are monitored regularly, via back testing process, to test the validity of the assumptions and the parameters used in the VaR calculation.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk (continued)

Implied volatilities (continued)

(i) VaR summary for 2018 and 2017 (continued)

Since VaR constitutes an integral part of the Bank's market risk control regime, VaR limits have been established and actual exposure is reviewed daily. However, the use of this approach does not prevent losses outside of these limits in the event of extraordinary market movements.

Average VaR by risk type:

	2018	2017
	€'000	€'000
Interest Rate Risk	**690**	764
Foreign Exchange Risk	**10**	5
Equities Risk	**9**	44
Total VaR	**695**	753

The VaR calculation is applied to all positions.

The aggregate of the interest rate, foreign exchange and equities VaR results does not constitute the Bank's total VaR due to correlations and consequent diversification effects among risk factors.

Interest rate VaR takes into account the changes to the fair valuation of all securities and derivatives held by the Bank.

Interest rate exposure of the Bank's securities and derivatives portfolio are analysed into time bands as shown in the following tables for December 2018 and 2017.

	31 December 2018				
	less than 1 month	**1-3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**
Investment securities	**16.505**	**25.021**	**19.210**	**147.882**	**625.572**
Fixed coupon bonds	-	-	19.210	147.882	625.572
Variable coupon bonds	16.505	25.021	-	-	-
Derivative financial instruments (1)	**-**	**-**	**50.000**	**-**	**(50.000)**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk

Implied volatilities (continued)

(i) VaR summary for 2018 and 2017 (continued)

	31 December 2017				
	less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	€'000	€'000	€'000	€'000	€'000
Investment securities	**36.473**	**62.733**	**35.913**	**158.929**	**216.666**
Fixed coupon bonds	20.845	38.115	35.913	158.929	216.666
Variable coupon bonds	15.628	24.618	-	-	-

(1) For linear interest rate derivatives, notional amounts are shown in the appropriate time band, aggregated across all currencies. For non-linear interest rate derivatives, delta equivalent notional amounts are shown in the appropriate time band, aggregated across all currencies.

(ii) Sensitivity Analysis for 2018 and 2017

	31 December 2018			31 December 2017		
	Sensitivity of income statement €'000	Sensitivity of equity €'000	Total Sensitivity €'000	Sensitivity of income statement €'000	Sensitivity of equity €'000	Total Sensitivity €'000
Interest Rate: +100bps parallel shift	(14.126)	(8.679)	(22.805)	(8.006)	(9.413)	(17.419)
Shares/Funds: -10% decrease on prices	(201)	-	(201)	(202)	-	(202)
Foreign exchange: -10% depreciation of functional currency over foreign currencies	29	-	29	16	-	16

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.2 Market risk

Implied volatilities (continued)

(iii) Foreign exchange risk

The following table presents the Bank's exposure to foreign currency exchange risk as at 31 December 2018 and 2017:

	31 December 2018						
	USD	**GBP**	**CHF**	**RUB**	**Other**	**Euro**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
ASSETS							
Cash and balances with central banks	444	361	12	-	2	766.460	767.279
Due from credit institutions	642.211	30.776	1.585	22.382	15.104	1.441.936	2.153.994
Derivative financial instruments	1.328	-	-	-	2	2.574	3.904
Loans and advances to customers	344.814	194.847	215.661	-	3.673	1.390.947	2.149.942
Investment securities	258.013	-	-	-	-	496.851	754.864
Investments in subsidiaries	-	-	-	-	-	4	4
Property, plant and equipment	-	-	-	-	-	6.987	6.987
Intangible assets	-	-	-	-	-	3.500	3.500
Other assets	45	37	-	33	-	1.055	1.170
Total assets	1.246.855	226.021	217.258	22.415	18.781	4.110.314	**5.841.644**
LIABILITIES							
Due to credit institutions	21.725	177	200.108	2.889	3.366	280.089	508.354
Derivative financial instruments	112	-	2	-	2	784	900
Due to customers	1.422.515	225.594	25.197	17.447	14.968	3.134.260	4.839.981
Other liabilities	1.637	102	-	12	141	45.806	47.698
Total liabilities	1.445.989	225.873	225.307	20.348	18.477	3.460.939	**5.396.933**
Net on balance sheet position	(199.134)	148	(8.049)	2.067	304	649.375	**444.711**
Derivative forward foreign exchange position	199.147	(204)	8.049	(2.068)	(297)	(649.338)	(444.711)
Total foreign exchange position	**13**	**(56)**	**-**	**(1)**	**7**	**37**	**-**

	31 December 2017						
	USD	**GBP**	**CHF**	**RUB**	**Other**	**Euro**	**Total**
	€'000	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**	**€'000**
ASSETS							
Cash and balances with central banks	353	215	18	-	5	505.313	505.904
Due from credit institutions	869.198	3.308	3.094	34.283	5.995	1.421.877	2.337.755
Derivative financial instruments	839	-	8	-	2	(38)	811
Loans and advances to customers	292.534	175.147	214.901	-	8.062	1.204.701	1.895.345
Investment securities	79.257	-	-	-	-	457.080	536.337
Investments in subsidiaries	-	-	-	-	-	4	4
Property, plant and equipment	-	-	-	-	-	6.820	6.820
Intangible assets	-	-	-	-	-	3.669	3.669
Other assets	845	30	-	35	-	977	1.887
Total assets	1.243.026	178.700	218.021	34.318	14.064	3.600.403	**5.288.532**
LIABILITIES							
Due to credit institutions	41.895	-	163.722	9.141	7.797	337.908	560.463
Derivative financial instruments	91	24	1	-	2	5.118	5.236
Due to customers	1.663.746	137.908	32.618	24.884	5.665	2.400.357	4.265.178
Other liabilities	1.645	66	-	39	150	45.897	47.797
Total liabilities	1.707.377	137.998	196.341	34.064	13.614	2.789.280	**4.878.674**
Net on balance sheet position	(464.351)	40.702	21.680	254	450	811.123	**409.858**
Derivative forward foreign exchange position	464.420	(40.702)	(21.680)	(254)	(448)	(811.194)	(409.858)
Total foreign exchange position	**69**	**-**	**-**	**-**	**2**	**(71)**	**-**

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match, and as a result there may be inability to meet cash calls.

The Bank is exposed to daily calls on its available cash resources due to deposits withdrawals, maturity of secured or unsecured funding (repurchase agreements and money market takings), loan draw-downs and forfeitures of guarantees, margin calls and payments on cash-settled derivatives and risk mitigation contracts. The Bank maintains cash resources to meet all of these needs. The Risk Committee sets liquidity limits to ensure that sufficient funds are available to meet such calls.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because past performance supports that the third parties generally do not draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, as many of these commitments will expire or terminate without being funded.

<u>Liquidity Risk Management Framework</u>
The Bank’s Liquidity Risk Management Policy defines the following supervisory and control structure:
- Board Risk Committee's role is to approve all strategic liquidity risk management decisions and monitor the quantitative and qualitative aspects of liquidity risk;
- Bank’s Assets and Liabilities Committee has the mandate to form and implement the liquidity policies and guidelines in conformity with Bank's risk appetite, and to review at least monthly the overall liquidity position of the Bank;
- Bank’s Treasury is responsible for the implementation of the Bank's liquidity strategy and the daily management of the Bank’s liquidity; and
- Bank’s Market, Counterparty and Liquidity Risk Sector is responsible for measuring, monitoring and reporting the liquidity of the Bank.

The following list summarises the main reports which are produced on a periodic basis:
(a) The regulatory liquidity gap report along with the regulatory liquidity ratios;
(b) Stress test scenarios. These scenarios evaluate the impact of a number of systemic stress events on the Bank's liquidity position;
(c) Liquidity coverage ratios (LCR) estimation (Basel III new regulatory ratio).

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below presents maturity analysis of financial assets as at 31 December 2018 and 2017, based on their contractual undiscounted cash flows. Loans without contractual maturities are presented in the "less than 1 month" time bucket.

31 December 2018

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Cash and balances with central banks	767.279	-	-	-	**767.279**
Due from credit institutions	776.025	1.375.841	-	2.235	**2.154.101**
Loans and advance to customers	285.892	18.621	84.394	2.080.380	**2.469.287**
Investment securities – debt securities	445	81.139	80.673	655.019	**817.276**
Investment securities – other equity	2.014	-	-	-	**2.014**
Derivative financial instruments	3.736	13	74	81	**3.904**
Other assets	64	-	-	222	**286**
	1.835.455	**1.475.614**	**165.141**	**2.737.937**	**6.214.147**

31 December 2017

	Less than 1 month	1 – 3 months	3 months to 1 year	Over 1 year	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Cash and balances with central banks	505.904	-	-	-	**505.904**
Due from credit institutions	1.264.413	1.071.859	2.000	4.000	**2.342.272**
Loans and advance to customers	567.779	49.855	171.018	1.382.919	**2.171.571**
Investment securities – debt securities	49.145	12.563	51.255	475.620	**588.583**
Investment securities – other equity	2.018	-	-	-	**2.018**
Derivative financial instruments	274	12	66	459	**811**
Other assets	952	-	-	201	**1.153**
	2.390.485	**1.134.289**	**224.339**	**1.863.199**	**5.612.312**

Derivative assets are reported in the liquidity analysis at current market value. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

The above assets are used from a liquidity management perspective to manage liquidity risk arising from the contractual maturity analysis of financial liabilities as disclosed in the following tables.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The table below analyses the cash flows payable by the Bank under derivative and non-derivative financial liabilities and off-balances sheet items into relevant maturity groupings based on the remaining period at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Liabilities without contractual maturities (sight and saving deposits) are presented in the "less than 1 month" time bucket.

31 December 2018

Financial liabilities	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	**Total €'000**
Non-derivative liabilities:					
- Due to credit institutions	412.101	17.829	36.545	43.199	**509.674**
- Due to customers	3.476.084	525.950	838.370	4.742	**4.845.146**
- Other liabilities	43.094	788	2.024	-	**45.906**
	3.931.279	**544.567**	**876.939**	**47.941**	**5.400.726**
Derivative financial instruments:	21	3	71	805	**900**

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	**Total €'000**
Financial guarantee contracts and other credit related commitments	167.346	-	**167.346**
Loan commitments	368.946	-	**368.946**
Capital expenditure	58	-	**58**
Operating lease commitments	1.617	9.842	**11.459**
	537.967	**9.842**	**547.809**

31 December 2017

Financial liabilities	Less than 1 month €'000	1 – 3 months €'000	3 months to 1 year €'000	Over 1 year €'000	**Total €'000**
Non-derivative liabilities:					
- Due to credit institutions	468.853	44.269	47.824	-	**560.946**
- Due to customers	2.985.944	468.745	812.886	4.848	**4.272.423**
- Other liabilities	43.589	683	2.762	-	**47.034**
	3.498.386	**513.697**	**863.472**	**4.848**	**4.880.403**
Derivative financial instruments:	4.730	8	37	461	**5.236**

Off-balance sheet items	Less than 1 year €'000	Over 1 year €'000	**Total €'000**
Financial guarantee contracts and other credit related commitments	128.167	-	**128.167**
Loan commitments	312.544	-	**312.544**
Capital expenditure	339	-	**339**
Operating lease commitments	1.404	995	**2.399**
	442.454	**995**	**443.449**

On derivative instruments line, the negative net present value (allocated per time bucket) is presented as a good proxy of the expected outflow.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.3 Liquidity risk (continued)

The liabilities from derivatives are reported in the liquidity analysis using the current market values of them. The amounts reported per time bucket (markets values) are very close to the corresponding net future cash flows since the current rates of EUR and USD are low.

It should be noted that the above table represents the worst case scenario since it is based on the assumption that all liabilities will be paid earlier than expected (all term deposits are withdrawn at their contractual maturity). Historical experience shows that even in a period of a systemic financial crisis the likelihood of such an event is remote.

The Bank holds a diversified portfolio of cash and high liquid assets to support payment obligations and contingent deposit withdrawals in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks in excess of Mandatory Reserve Requirement (2018: €711.522 thousand vs 2017: €454.509 thousand);
- Eligible bonds and other financial assets for collateral purposes (2018: €2.488.652 thousand vs 2017: €2.588.381 thousand); and
- Current accounts with credit institutions and interbank placings maturing within one month (2018: €167.123 thousand vs 2017: €212.576 thousand).

4.2.4 Operational risk

The Bank has adopted the Eurobank Group OpRisk Framework which defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It thus includes any unexpected or adverse impacts upon the Bank arising from any aspect of its business which is not directly attributable to any of the other risk types defined under the Framework.

The Board of Directors monitors through the Risk Committee the operational risk level and profile including the level of operational losses, their frequency and severity, and through the Audit Committee, the status of operational risk-related control issues. The Risk Management Unit sponsors any operational risk related initiative and ensures implementation of the operational risk policy.

The Bank is exposed to a variety of operational risks, such as: internal and external fraud, transaction execution errors, system failures, catastrophes, risk of losses due to damage of physical assets and risks arising from improper use of products or business practices.

4 Financial risk management and fair value (continued)

4.2 Financial risk factors (continued)

4.2.4 Operational risk (continued)

The prime responsibility for operational risk management lies with the respective heads of each business unit. To this end, every business unit:

- Identifies, evaluates and monitors its operational risks and implements risk mitigation techniques;
- Assesses control efficiency;
- Reports all relevant issues; and
- Has access to and uses the common methods and tools introduced by Operational Risk Sector, in order to facilitate identification, evaluation and monitoring of operational risk.

The OpRisk Framework is built on principles, governance & organisation, processes and infrastructure.

The Bank has in place systems and procedures for monitoring and managing operational risk events which are reported to the Risk Management Unit through the Incident Report, describing the particular event that took place, the underlying root cause(s), the associated product/service, the business process during which it occurred, any remediation activity that has been undertaken and the gross actual loss, potential loss or gain that resulted due to the event's occurrence. Near misses as well as operational risk events with a timing impact are also reported.

4.3 Financial assets pledged as collateral

The Bank may sell or re-pledge any securities obtained through reverse repurchase agreements and has an obligation to return the securities. The counterparty retains substantially all the risks and rewards of ownership and therefore the securities are not recognised by the Bank. As at 31 December 2018, the Bank had obtained through reverse repurchase agreements securities of face value of €1.967.662 thousand and fair value €1.974.673 thousand (2017: €2.130.857 thousand and €2.025.255 thousand), out of which reverse repurchase agreements with face value €143.000 thousand and fair value €147.196 thousand (2017: nil) have been lent out through securities lending agreements.

As at 31 December 2018, the cash value of the assets transferred by the Bank through repurchase agreements amounted to €30 million (2017: nil).

4 Financial risk management and fair value (continued)

4.4 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, processes and policies from previous years.

The Bank has complied with all externally imposed capital requirements throughout the current and prior year.

The Bank's Capital Adequacy position is presented in the following table:

	2018	2017
	€'000	€'000
Ordinary shareholders' equity	**444.711**	409.858
Less: other regulatory adjustments	**(3.996)**	(3.669)
Total Tier 1 capital	**440.715**	406.189
Tier 2 capital	**-**	-
Total regulatory capital	**440.715**	406.189
Risk Weighted Assets	**1.800.442**	1.526.258

	2018	2017
	%	%
Ratios:		
Core Tier 1	**24,5**	26,6
Tier 1	**24,5**	26,6
Tier 2	**-**	-
Capital Adequacy Ratio	**24,5**	26,6

As at 31 December 2018, Tier 1 capital represents share capital, share premium, retained earnings, other reserves less intangible assets and additional valuation adjustments.

Based on Council Regulation No 1024/2013, the ECB conducts annually a Supervisory Review and Evaluation Process ('SREP') in order to define the prudential requirements of the institutions under its supervision. The key purpose of the SREP is to ensure that institutions have adequate arrangements, strategies, processes and mechanisms as well as capital and liquidity to ensure a sound management and coverage of their risks, to which they are or might be exposed, including those revealed by stress testing and risks the institution may pose to the financial system. According to the 2018 SREP decision, for the year ended 31 December 2018, the Bank was required to meet on an individual basis a Total SREP Capital Requirement (TSCR) of at least 10,25% (consisting of the minimum requirement of 8% for Pillar 1 risks and a Pillar 2 requirement of 2,25%) and an Overall Capital Requirement of at least 12,125% (consisting of the TSCR plus the Capital Conservation Buffer of 1,875%).

4 Financial risk management and fair value (continued)

4.4 Capital management (continued)

The Capital Adequacy Ratio as at 31 December 2017 incorporated the early repayment of the €40 million subordinated debt and a dividend payment of €50 million.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using among other measures, the rules and ratios established by the Basel Committee on Banking Supervision and adopted by the European Union and the Central Bank of Cyprus.

Leverage

The regulatory framework has introduced the leverage ratio as a non-risk based measure which is intended to restrict the build-up of excessive leverage from on and off balance sheet items in the banking sector. The leverage ratio is defined as Tier 1 capital divided by the total exposure measure and is a binding requirement at the beginning of 2018. The Bank submits to the regulatory authorities the leverage ratio on quarterly basis and monitors the level and the factors that affect the ratio.

The level of the leverage ratio with reference date 31 December 2018 amounts to 10,0% (2017: 11,8%), according to the transitional definition of Tier 1 capital, which is significantly over the 3% minimum threshold applied by the competent authorities.

4.5 Fair value of financial assets and liabilities

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. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available, the fair value of financial assets and liabilities is estimated using present value or other estimation and valuation techniques where all significant inputs are observable.

The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rate used. The fair values of financial assets and liabilities approximate their carrying amounts due to the following reasons:

a) trading assets, derivatives and other transactions undertaken for trading purposes as well as treasury bills, investment securities and assets and liabilities designated at fair value through profit or loss are measured at fair value by reference to quoted market prices when available. If quoted market prices are not available, then the fair values are estimated using valuation techniques.
b) substantially all of the Bank's other financial assets and liabilities are at floating rates of interest, which re-price at frequent intervals. Therefore, the Bank has no significant exposure to fair value fluctuations and the carrying value of the financial assets and liabilities is substantially equivalent to their fair values, other than investment securities at amortised cost which are referred to in note 18.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

The Bank's financial instruments carried at fair value or at amortised cost for which fair value is disclosed are categorised into the three fair value hierarchy levels based on whether the inputs to their fair values are observable or non-observable, as follows:

a) Level 1 – Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that the Bank can access at the measurement date. A market is considered active when quoted prices must be readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. Level 1 financial instruments include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds that have regularly and frequently published quotes.

b) Level 2 - Financial instruments measured using valuation techniques where inputs, other than level 1 quoted prices, that are observable either directly or indirectly, such as: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments include over-the-counter (OTC) derivatives and less liquid debt instruments.

c) Level 3 - Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equities or equities traded in markets that are not considered active, certain OTC derivatives and loans and advances to customers.

Financial instruments carried at fair value

The fair value hierarchy categorisation of the financial assets and liabilities carried at fair value as at 31 December 2018 and 2017 is presented in the following tables:

	At 31 December 2018			
	Level 1 €'000	**Level 2 €'000**	**Level 3 €000**	**Total €'000**
Financial assets measured at fair value:				
Due from credit institutions	-	2.235	-	**2.235**
Derivatives for which hedge accounting is not applied/held for trading	-	3.904	-	**3.904**
Loans and advances to customers	-	-	11.597	**11.597**
Investment securities at FVOCI	443.315	32.964	-	**476.279**
Investment securities at FVTPL	2.014	-	-	**2.014**
Total financial assets measured at fair value	**445.329**	**39.103**	**11.597**	**496.029**
Financial liabilities measured at fair value:				
Derivative financial instruments designated as fair value hedges	-	466	-	**466**
Derivatives for which hedge accounting is not applied/held for trading	-	434	-	**434**
Total financial liabilities measured at fair value	**-**	**900**	**-**	**900**

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments carried at fair value (continued)

	At 31 December 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	€'000	**€'000**	**€000**	**€'000**
Financial assets measured at fair value:				
Derivatives for which hedge accounting is not applied/held for trading	-	811	-	**811**
Available-for-sale financial assets	304.100	-	-	**304.100**
Total financial assets measured at fair value	**304.100**	**811**	**-**	**304.911**
Financial liabilities measured at fair value:				
Derivatives for which hedge accounting is not applied/held for trading	-	5.236	-	**5.236**
Total financial liabilities measured at fair value	**-**	**5.236**	**-**	**5.236**

As at 31 December 2018, the loans and advances to customers categorised as Level 3 relate to the classification of loans and advances to customers of €12.522 thousand to FVTPL upon transition to IFRS 9 and repayments made during the year.

Valuation processes and techniques

The Bank's processes and procedures governing the fair valuations are established by the Group Market Counterparty Risk Sector in line with the Group's accounting policies. The Bank uses widely recognised valuation models for determining the fair value of common financial instruments that are not quoted in an active market, such as interest and cross currency swaps, that use only observable market data and require little management estimation and judgment. Specifically, observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values' estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values also reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank entity and the counterparty, where appropriate.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Valuation processes and techniques (continued)

Valuation controls applied by the Bank may include verification of observable pricing, re-performance of model valuations, review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 13.

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs). CVA calculation uses probabilities of default (PDs) based on observable market data as credit default swaps (CDS) spreads, where appropriate, or based on internal rating models. The Bank applies similar methodology for the calculation of debit-value-adjustments (DVAs), when applicable. Where valuation techniques are based on internal rating models and the relevant CVA is significant to the entire fair value measurement, such derivative instruments are categorised as Level 3 in the fair value hierarchy.

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield, quoted market prices in non active markets for identical or similar financial instruments, or using discounted cash flows method.

Unquoted equity instruments at FVTPL under IFRS 9 (AFS under IAS 39) are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, and (ii) net assets' valuations, adjusted where considered necessary.

Loans and advances to customers which contractual cash flows do not represent solely payments of principal and interest (SPPI failures) are measured mandatorily at fair value through profit or loss. Quoted market prices are not available as there are no active markets where these instruments are traded. Their fair values are estimated on an individual loan basis by discounting the future expected cash flows over the time period they are expected to be recovered, using an appropriate discount rate. Expected cash flows which incorporate credit risk represent significant unobservable input in the valuation and as such the entire fair value measurement is categorised as Level 3 in the fair value hierarchy.

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments not carried at fair value

The fair value hierarchy categorisation of the Bank's financial assets and liabilities not carried at fair value on the balance sheet is presented in the following tables:

	At 31 December 2018				
	Level 1 €'000	**Level 2 €'000**	**Level 3 €000**	**Total Fair Value- for disclosure purposes €000**	**Carrying amount €'000**
Financial assets not carried at fair value:					
Balances with central banks	-	759.285	-	**759.285**	**759.285**
Due from credit institutions	-	2.151.759	-	**2.151.759**	**2.151.759**
Loans and advances to customers	-	-	2.138.345	**2.138.345**	**2.138.345**
Investment securities at amortised cost	298.528	-	-	**298.528**	**276.571**
Other financial assets	-	286	-	**286**	**286**
	298.528	**2.911.330**	**2.138.345**	**5.348.203**	**5.326.246**
Financial liabilities not carried at fair value:					
Due to credit institutions	-	508.354	**-**	**508.354**	**508.354**
Due to customers	-	4.839.981	**-**	**4.839.981**	**4.839.981**
Other financial liabilities	-	45.906	**-**	**45.906**	**45.906**
	-	**5.394.241**	**-**	**5.394.241**	**5.394.241**

	At 31 December 2017				
	Level 1 €'000	**Level 2 €'000**	**Level 3 €000**	**Total Fair Value- for disclosure purposes €000**	**Carrying amount €'000**
Financial assets not carried at fair value:					
Balances with central banks	-	498.605	-	**498.605**	**498.605**
Due from credit institutions	-	2.337.755	-	**2.337.755**	**2.337.755**
Loans and advances to customers	-	-	1.895.345	**1.895.345**	**1.895.345**
Held-to-maturity investments	218.592	38.770	-	**257.362**	**232.237**
Other financial assets	-	1.152	-	**1.152**	**1.152**
	218.592	**2.876.282**	**1.895.345**	**4.990.219**	**4.965.094**
Financial liabilities not carried at fair value:					
Due to credit institutions	-	560.463	**-**	**560.463**	**560.463**
Due to customers	-	4.265.178	**-**	**4.265.178**	**4.265.178**
Other financial liabilities	-	47.034	**-**	**47.034**	**47.034**
	-	**4.872.675**	**-**	**4.872.675**	**4.872.675**

4 Financial risk management and fair value (continued)

4.5 Fair value of financial assets and liabilities (continued)

Financial instruments not carried at fair value (continued)

The Bank recognises transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was effected. During the years ended 31 December 2018 and 2017, the Bank did not make any transfers into and out of the fair value hierarchy levels.

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value are in line with those used to calculate the fair values for financial instruments carried at fair value. Particularly:

a) Loans and advances to customers: for loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. Loans are grouped into homogenous assets with similar characteristics, as monitored by Management, such as product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. In estimating future cash flows, the Bank makes assumptions on expected prepayments, product spreads and timing of collateral realisation. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate;
b) Investment securities carried at amortised cost: the fair values of financial investments are determined using prices quoted in an active market when these are available. In other cases, fair values are determined using quoted market prices for securities with similar credit risk, maturity and yield, quoted market prices in non active markets for identical or similar financial instruments, or by using the discounted cash flows method; and
c) Debt securities in issue: the fair values of the debt securities in issue are determined using quoted market prices, if available. If quoted prices are not available, fair values are determined based on quotes for similar debt securities or by discounting the expected cash flows at a risk-adjusted rate, where the Bank’s own credit risk is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by other issuers.

For other financial instruments which are short term or re-price at frequent intervals (cash and balances with central banks, due from credit institutions, due to central banks, due to credit institutions and due to customers), the carrying amounts represent reasonable approximations of fair values.

4 Financial risk management and fair value (continued)

4.6 Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

4.7 Offsetting of financial assets and financial liabilities

The disclosures set out in the tables below include financial assets and financial liabilities that:

a) are offset in the Bank's balance sheet according to IAS 32 'Financial Instruments: Presentation' criteria; or
b) are subject to enforceable master netting arrangements or similar agreements that cover similar financial instruments, irrespective of whether they are offset in balance sheet.

Regarding the former, financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when, there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously (the offset criteria), as also set out in the Bank's accounting policy 2.2.3.

Regarding the latter, the International Swaps and Derivatives Association ('ISDA') and similar master netting arrangements do not meet the criteria for offsetting in the balance sheet, as they create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of the Bank or the counterparties or following other predetermined events. In addition, the Bank and its counterparties may not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

Similar agreements to ISDA include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements. Similar financial instruments include derivatives, repos and reverse repos agreements and securities borrowing and lending agreements. Financial instruments such as loans and deposits are not subject to this disclosure unless they are offset in the balance sheet.

The following tables present financial assets and financial liabilities that meet the criteria for offsetting and thus are reported on a net basis in the balance sheet, as well as amounts that are subject to enforceable master netting arrangements and similar agreements for which the offset criteria mentioned above are not satisfied. The latter amounts, which mainly relate to derivatives and reverse repurchase agreements, are not set off in the balance sheet. In respect of these transactions, the Bank receives and provides collateral in the form of marketable securities and cash that are included in the tables below under columns 'financial instruments' and 'cash collateral' at their fair value.

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

Financial assets and liabilities are disclosed in the below tables at their recognised amounts which are at amortised cost, except for derivative financial instruments which are measured at fair value.

The amount set off in the balance sheet reported in column (b) is the lower of (i) the gross amount before offsetting reported in column (a) and (ii) the amount of the related instrument that is eligible for offsetting. Similarly, the amounts in columns (d) and (e) are limited to the exposure reported in column (c) for each individual instrument in order not to understate the ultimate net exposure.

	31 December 2018					
				Amounts subject to master netting and similar arrangements not set off in the balance sheet		
	Gross amounts before offsetting in the balance sheet (a) €000	Gross amounts set off in the balance sheet (b) €000	Net amounts after offsetting in the balance sheet (c) = (a) – (b) €000	Financial instruments including non-cash collaterals (d) €000	Cash collateral received/ pledged (e) €000	Net amount (c) – (d) – (e) €000
Assets						
Placements with credit institutions	6.969	-	6.969	-	6.969	-
Settlement balances with credit institutions	13.807	-	13.807	-	13.807	-
Loans and advances to customers	47.529	47.529	-	-	-	-
Reverse repurchase agreements receivables	1.982.035	-	1.982.035	1.982.035	-	-
Derivative financial instruments	3.717	-	3.717	-	3.717	-
Total assets subject to offsetting, master netting and similar arrangement	**2.054.057**	**47.529**	**2.006.528**	**1.982.035**	**24.493**	**-**
Liabilities						
Deposits from credit institutions	7.614	-	7.614	-	4.531	3.083
Settlement balances with credit institutions	46.818	-	46.818	-	19.304	27.514
Due to customers	47.529	47.529	-	-	-	-
Derivative financial instruments	658	-	658	-	658	-
Total liabilities subject to offsetting, master netting and similar arrangement	**102.619**	**47.529**	**55.090**	**-**	**24.493**	**30.597**

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

Financial instruments subject to offsetting, enforceable master netting and similar arrangements are as follows at 31 December 2017:

	31 December 2017					
				Amounts subject to master netting and similar arrangements not set off in the balance sheet		
	Gross amounts before offsetting in the balance sheet (a) €000	Gross amounts set off in the balance sheet (b) €000	Net amounts after offsetting in the balance sheet (c) = (a) – (b) €000	Financial instruments including non-cash collaterals (d) €000	Cash collateral received/ pledged (e) €000	Net amount (c) – (d) – (e) €000
Assets						
Placements with credit institutions	6.624	-	6.624	-	6.624	-
Settlement balances with credit institutions	6.007	-	6.007	-	6.007	-
Loans and advances to customers	40.112	40.112	-	-	-	-
Reverse repurchase agreements receivables	2.118.536	-	2.118.536	2.118.536	-	-
Derivative financial instruments	486	-	486	-	486	-
Total assets subject to offsetting, master netting and similar arrangement	**2.171.765**	**40.112**	**2.131.653**	**2.118.536**	**13.117**	**-**
Liabilities						
Deposits from credit institutions	18.854	-	18.854	-	8.120	10.734
Settlement balances with credit institutions	43.432	-	43.432	-	-	43.432
Due to customers	40.112	40.112	-	-	-	-
Derivative financial instruments	4.997	-	4.997	-	4.997	-
Total liabilities subject to offsetting, master netting and similar arrangement	**107.395**	**40.112**	**67.283**	**-**	**13.117**	**54.166**

4 Financial risk management and fair value (continued)

4.7 Offsetting of financial assets and financial liabilities (continued)

The tables below show a reconciliation of the net amounts of financial assets and financial liabilities presented in the balance sheet:

31 December 2018

	Net amounts €'000	Line item in the balance sheet	Carrying amount in the balance sheet €'000	Financial assets/liabilities not in scope of offsetting disclosures €'000	*Note*
Types of financial assets:					
Placements with credit institutions	6.969	Due from credit institutions	139.177	132.208	*15*
Settlement balances with credit institutions	13.807	Due from credit institutions	30.547	16.740	*15*
Reverse repurchase agreements receivables	1.982.035	Due from credit institutions	1.982.035	-	*15*
Derivative financial instruments	3.717	Derivative financial instruments	3.904	187	*16*
Types of financial liabilities:					
Deposits from credit institutions	7.614	Due to credit institutions	416.683	409.069	*23*
Settlement balances with credit institutions	46.818	Due to credit institutions	91.671	44.853	*23*
Derivative financial instruments	658	Derivative financial instruments	900	242	*16*

31 December 2017

	Net amounts €'000	Line item in the balance sheet	Carrying amount in the balance sheet €'000	Financial assets/liabilities not in scope of offsetting disclosures €'000	*Note*
Types of financial assets:					
Placements with credit institutions	6.624	Due from credit institutions	143.023	136.399	*15*
Settlement balances with credit institutions	6.007	Due from credit institutions	76.196	70.189	*15*
Reverse repurchase agreements receivables	2.118.536	Due from credit institutions	2.118.536	-	*15*
Derivative financial instruments	486	Derivative financial instruments	811	325	*16*
Types of financial liabilities:					
Deposits from credit institutions	18.854	Due to credit institutions	422.752	403.898	*23*
Settlement balances with credit institutions	43.432	Due to credit institutions	137.711	94.279	*23*
Derivative financial instruments	4.997	Derivative financial instruments	5.236	239	*16*

Notes to the financial statements

5 Net interest income

	2018 €'000
Interest income	
Interest from amounts due from credit institutions - *measured at amortised cost*	**20.133**
Interest from derivative financial instruments - *measured at FVTPL*	**9.366**
Interest from loans and advances to customers	**63.786**
- *measured at amortised cost*	*63.392*
- *measured at FVTPL*	*394*
Interest from investment securities	**20.023**
- *measured at amortised cost*	*7.687*
- *measured at FVOCI*	*12.336*
Total interest income	**113.308**
Interest expense	
Interest on due to credit institutions - *measured at amortised cost*	(8.050)
Interest on derivative financial instruments - *measured at FVTPL*	(664)
Interest on due to customers - *measured at amortised cost*	(34.903)
Total interest expense	**(43.617)**
Net interest income	**69.691**

	2017 €'000
Interest income	
Interest from amounts due from credit institutions	18.311
Interest from derivative financial instruments	5.500
Interest from loans and advances to customers	61.979
Interest from investment securities	19.899
Total interest income	**105.689**
Interest expense	
Interest on due to credit institutions	(7.100)
Interest on derivative financial instruments	(453)
Interest on due to customers	(30.885)
Other interest expense	(2)
Total interest expense	**(38.440)**
Net interest income	**67.249**

6 Net banking fee and commission income

	2018 €'000	2017 €'000
Banking fee and commission income		
Bank transfer commissions	**8.071**	7.704
Other fees and commissions	**19.173**	20.090
Total banking fee and commission income	**27.244**	27.794
Banking fee and commission expense		
Fees on lien agreements (note 31)	**(2.090)**	(2.062)
Other fees and commissions	**(4.777)**	(5.058)
Total banking fee and commission expense	**(6.867)**	(7.120)
Net banking fee and commission income	**20.377**	20.674

6 Net banking fee and commission income (continued)

The following table includes net banking fees and commission income from contracts with customers in the scope of IFRS 15, disaggregated by major type of services:

	2018	2017
	€'000	€'000
Lending related activities	**2.088**	1.523
Wealth management	**2.179**	1.660
Network and other transactional activities	**16.110**	17.491
	20.377	20.674

The Bank recognises revenue when it transfers control over a service to a customer.

The Bank earns fee income from a range of services it provides to its clients. The major categories are the below:

- Banking services including account management, granting of credit facilities, foreign currency transactions, credit card and other service fees.
  Revenues from account and servicing fees is recognised over time as the services are provided (i.e. charged on a monthly basis to the customer's account).
  Revenues from transaction-based fees (e.g. foreign currency transactions, overdraft facilities, etc.) are recognised at the point in time when the transactions takes place.

- Execution of client transactions.
  Revenue from transaction-based fees is recognised at the point in time when the transaction takes place.

- Wealth management services, including safekeeping of assets and asset management services.
  Fees are calculated based on a fixed percentage of the value of assets managed / held and deducted from the customer's account balance on a monthly basis. The respective revenue is recognised over time as the services are provided.

7 Net trading income

	2018	2017
	€'000	€'000
Net income from the ineffective portion of derivatives in qualifying hedging relationships	**54**	-
Net income on derivative financial instruments (no hedge accounting)	**68**	56
	122	56

8 Net gains/losses from investment securities

	2018 €'000	2017 €'000
Net gains on disposal of investment securities at FVOCI	**2.009**	-
Net losses on revaluation of investment securities mandatorily at FVTPL	**(43)**	-
Net gains on redemptions of held-to-maturity investments	**-**	7.884
Net gains on disposal of available-for-sale financial assets	**-**	944
Net gains from investment securities	**1.966**	8.828

9 Other income

	2018 €'000	2017 €'000
Profit on disposal of investments in subsidiaries (note 19)	**2.176**	48
Other income	**128**	6
	2.304	54

10 Staff costs

	2018 €'000	2017 €'000
Salaries and other related costs	**12.228**	12.689
Social insurance and other costs	**2.510**	2.372
Directors' fees and remuneration	**945**	870
Retirement benefit costs – defined contributions plan	**1.005**	960
	16.688	16.891

The average number of employees of the Bank during the year 2018 was 356 (2017: 325).

The Defined Contribution Plan is managed by an Administrative Committee composed of representatives of both the members and the employer.

The Bank contributes 10% of the gross monthly salary of the members of staff who previously were under the Defined Benefit pension scheme which was resolved in 2013 and a range between 5%-10% for new members of staff who were not under the above scheme.

11 Other operating expenses

	2018 €'000	2017 €'000
Amortisation of intangible assets (note 21)	**1.019**	850
Depreciation of property, plant and equipment (note 20)	**1.424**	1.530
Loss on disposal/write down of intangible assets and property, plant and equipment	**6**	9
Operating lease rentals	**1.427**	1.485
Repairs and maintenance	**1.459**	2.217
Auditors' remuneration for statutory audit	**77**	54
Auditors' remuneration for other assurance engagements	**24**	40
Auditors' remuneration for non-assurance engagements	**3**	-
Auditors' remuneration for tax services	**-**	95
Professional fees	**1.119**	674
Advertising and promotion	**1.353**	1.737
Other administrative expenses	**4.150**	3.925
	12.061	12.616

12 Other impairment losses and provisions

	2018 €'000	2017 €'000
Provisions on operational risk events	**965**	-
Reversal of impairment losses on investment securities at FVOCI	**(384)**	-
Reversal of impairment losses on investment securities at AC	**(202)**	-
Reversal of impairment losses on due from credit institutions	**(39)**	-
	340	-

13 Income tax expense

	2018 €'000	2017 €'000
Current tax:		
- Corporation tax	**6.880**	5.431
- Withholding tax	**459**	57
Total current tax	**7.339**	5.488
Deferred tax (credit)/charge	**(85)**	5
Total income tax expense	**7.254**	5.493

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

	2018 €'000	2017 €'000
Profit before tax and government levies	**55.055**	51.554
Tax calculated at the applicable corporation tax rate of 12,5%	**6.882**	6.444
Tax effect of expenses not deductible for tax purposes	**646**	458
Tax effect of allowances and income not subject to tax	**(648)**	(1.471)
Withholding tax	**459**	57
Deferred tax (credit)/charge	**(85)**	5
Income tax expense	**7.254**	5.493

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

Tax losses may be carried forward for five years.

Under certain conditions interest income may be subject to defence contribution at the rate of 30%. In such cases this interest will be exempt from corporation tax.

In certain cases, dividends received from abroad may be subject to special defence contribution at the rate of 17%.

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

There is no income tax effect relating to components of other comprehensive income (2017: €nil).

The Management believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

13 Income tax expense (continued)

Deferred income tax:

Deferred income taxes are calculated on all temporary differences under the liability method at the rate in effect at the time the reversal is expected to take place.

The movement in deferred income tax (assets) and liabilities (non-current) during the year is as follows:

	Differences between wear & tear and depreciation €'000	**Total €'000**
Balance at 1 January 2017	52	**52**
Charged to income statement	5	**5**
Balance at 1 January 2018 (note 25)	57	**57**
Charged to income statement	(85)	**(85)**
Balance at 31 December 2018 (note 22)	**(28)**	**(28)**

14 Cash and balances with central banks

	2018 €'000	2017 €'000
Cash in hand	**7.994**	7.299
Balances with central banks	**759.285**	498.605
Total	**767.279**	505.904
of which:		
Mandatory deposits with central banks	**47.763**	44.096

As at 31 December 2018, the impairment allowance for expected credit losses on balances with central banks within the scope of IFRS 9 impairment requirements amounted to €8 thousand.

Cash and balances with central banks are classified as current.

Mandatory deposits with central banks represent the minimum level of average monthly deposits which the Bank is required to maintain. Mandatory balances with central banks can be withdrawn at any time provided the average monthly minimum deposits are maintained.

15 Due from credit institutions

	2018 €'000	2017 €'000
Due from credit institutions at amortised cost:		
Reverse repurchase agreements receivables (1)	**1.982.035**	2.118.536
Placements with credit institutions (2)	**139.177**	143.023
Settlement balances with credit institutions	**30.547**	76.196
	2.151.759	2.337.755
Due from credit institutions mandatorily at FVTPL:		
Placements with credit institutions (2)	**2.235**	-
Total due from credit institutions	**2.153.994**	2.337.755
Maturity analysis:		
Current:		
- on demand up to 7 days	**145.514**	722.542
- between 7 days and three months	**2.006.245**	1.613.213
- between three months and one year	**-**	-
	2.151.759	2.335.755
Non-current	**2.235**	2.000
	2.153.994	2.337.755

(1) Amounts due from credit institutions include reverse repurchase agreements of €1.982.035 thousand (2017: €2.118.536 thousand).

The majority of the reverse repurchase agreements receivables as at 31 December 2018, approximately €1.831.397 thousand, are fully secured by EU government and guaranteed bonds, Cyprus government bonds, and bonds issued by the European Financial Stability Fund which are ECB eligible and rated as investment grade.

The reverse repurchase agreements receivables as at 31 December 2017 represented money market placements fully secured by investment grade bonds. The majority of these bonds were ECB eligible bonds amounting to approximately €2,0 billion.

(2) Placements with credit institutions bear interest which is based on the interbank rate of the relevant term and currency.

As at 31 December 2018, the impairment allowance for expected credit losses on amounts due from credit institutions at amortised cost within the scope of IFRS 9 impairment requirements amounted to €94 thousand.

16 Derivative financial instruments

The Bank utilises the following derivative instruments for both hedging and non-hedging purposes:

Currency forwards represent commitments to purchase or sell foreign and domestic currency.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities, except in the cases where the counterparty is a Eurobank group entity.

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. In consideration for the assumption of foreign exchange or interest rate risk, the seller receives a premium from the purchaser. Options may be either exchange-traded or negotiated between the Bank and a customer (OTC). The Bank is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks at the reporting date. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which the instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held by product type and hedge relationship along with their notional amounts are set out in the following table:

	31 December 2018		
	Contract/ notional amount	Fair values	
		Assets	Liabilities
	€ '000	€ '000	€ '000
Derivatives for which hedge accounting is not applied/held for trading			
- Currency options	5.970	16	16
- Currency forward and spot deals	8.607	48	32
- Interest rate swaps	53.364	129	386
- Currency swaps	211.778	3.711	-
		3.904	**434**
Derivatives designated as fair value hedges			
- Interest rate swaps	50.000	-	466
		-	**466**
Total derivatives assets/liabilities		**3.904**	**900**

16 Derivative financial instruments (continued)

	31 December 2017		
	Contract/ notional amount	Fair values Assets	Liabilities
	€ '000	€ '000	€ '000
Derivatives for which hedge accounting is not applied/held for trading			
- Currency options	9.356	45	45
- Currency forward and spot deals	12.319	64	26
- Interest rate swaps	70.941	459	461
- Currency swaps	503.552	243	4.704
		811	**5.236**
Derivatives designated as fair value hedges			
- Interest rate swaps	-	-	-
		-	**-**
Total derivatives assets/ liabilities		**811**	**5.236**

	Fair Values			
	2018		2017	
	Assets	**Liabilities**	Assets	Liabilities
	€'000	**€'000**	€'000	€'000
Maturity analysis:				
Current	**3.823**	**95**	274	4.731
Non-current	**81**	**805**	537	505
	3.904	**900**	811	5.236

The Bank uses certain derivatives and other financial instruments, designated in a qualifying hedged relationship, to reduce its exposure to market risks. The hedging practices applied by the Bank, as well as the relevant accounting policy, are disclosed in note 2.2.2. In particular:

Fair value hedges
The Bank hedges a proportion of its existing interest rate risk resulting from any potential change in the fair value of fixed rate debt securities held using interest rate swaps. In 2018, the Bank recognised a gain of €520 thousand (2017: nil) from changes in the carrying amount of the hedged item attributable to the hedged risk, used as the basis of recognising hedge ineffectiveness and €466 thousand loss (2017: €nil) from changes in the carrying amount (i.e. fair value) of the hedged instrument. The amount of hedge ineffectiveness recognised for 2018 in income statement was €54 thousand gain (2017: €nil). The IRS used for hedging has a forward start date in 2022 earning EUR_EONIA + 113 basis points and paying a fixed rate of 2,375%.

16 Derivative financial instruments (continued)

Fair value hedges (continued)

At 31 December 2018, the amounts relating to items designated as fair value hedged items were as follows:

	Carrying amount	Accumulated amount of FV hedge adjustments on the hedged item	Change in value as the basis for recognising hedge ineffectiveness
	€'000	**€'000**	**€'000**
Investment securities - Debt securities at AC	**50.659**	**520**	**520**

At 31 December 2018, the timing of the nominal amount of the financial instruments designated by the Bank in fair value hedge relationships and hedged items is presented in the table below:

	Maturity over 5 years	Total
	€'000	**€'000**
Interest rate swap - Investment securities at AC	50.000	**50.000**

In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are monitored and have been classified for accounting purposes along with those held for trading.

The Bank's exposure in derivative financial assets, as categorised by counterparty's geographical region and industry sector, is presented in note 4.2.1.5.

Information on the fair value measurement and offsetting of derivatives is provided in notes 4.5 and 4.7, respectively.

17 Loans and advances to customers

	31 December 2018 €'000	1 January 2018 €'000	31 December 2017 €'000
Loans and advances to customers at amortised cost:			
- Gross carrying amount	**2.193.771**	**1.954.500**	1.967.022
- Impairment allowance	**(55.426)**	**(70.935)**	(71.677)
Carrying amount	**2.138.345**	**1.883.565**	1.895.345
Loans and advances to customers mandatorily at FVTPL:			
Carrying amount	**11.597**	**12.522**	-
Total	**2.149.942**	**1.896.087**	1.895.345

	31 December 2018 €'000	31 December 2017 €'000
Maturity analysis:		
Current	**340.536**	713.966
Non-current	**1.809.406**	1.181.379
	2.149.942	1.895.345

As at 31 December 2017 all loans and advances to customers were categorised as "loans and receivables".

17 Loans and advances to customers (continued)

The table below presents the carrying amount of loans and advances to customers per business unit and per stage as at 31 December 2018:

	31 December 2018				1 January 2018	31 December 2017
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total amount	Total amount	Total amount
	€000	€000	€000	€000	€000	€000
At amortised cost						
Retail Lending:						
- Mortgage						
Gross carrying amount	10.615	-	-	10.615	10.318	10.318
Impairment allowance	-	-	-	-	-	-
Carrying amount	10.615	-	-	10.615	10.318	10.318
- Consumer						
Gross carrying amount	15.469	7	26	15.502	12.687	12.687
Impairment allowance	(91)	-	(26)	(117)	(63)	(63)
Carrying amount	15.378	7	-	15.385	12.624	12.624
- Affluent banking						
Gross carrying amount	8.970	219	-	9.189	634	634
Impairment allowance	(1)	(1)	-	(2)	(3)	(3)
Carrying amount	8.969	218	-	9.187	631	631
- Credit cards						
Gross carrying amount	564	2	17	583	519	519
Impairment allowance	(2)	-	(7)	(9)	(5)	(5)
Carrying amount	562	2	10	574	514	514
Wholesale Lending:						
- Large corporate loans						
Gross carrying amount	1.091.519	73.413	53.664	1.218.596	939.094	951.616
Impairment allowance	(758)	(1.136)	(32.199)	(34.093)	(38.199)	(38.941)
Carrying amount	1.090.761	72.277	21.465	1.184.503	900.895	912.675
- Wealth management loans						
Gross carrying amount	241.124	21.089	35.630	297.843	299.534	299.534
Impairment allowance	(91)	(135)	(20.923)	(21.149)	(31.428)	(31.428)
Carrying amount	241.033	20.954	14.707	276.694	268.106	268.106
- International business banking loans						
Gross carrying amount	473.853	34	5	473.892	540.664	540.664
Impairment allowance	-	-	(5)	(5)	(243)	(243)
Carrying amount	473.853	34	-	473.887	540.421	540.421
- Shipping loans						
Gross carrying amount	167.545	6	-	167.551	151.050	151.050
Impairment allowance	(51)	-	-	(51)	(994)	(994)
Carrying amount	167.494	6	-	167.500	150.056	150.056
Total at amortised cost						
Gross carrying amount	2.009.659	94.770	89.342	2.193.771	1.954.500	1.967.022
Impairment allowance	(994)	(1.272)	(53.160)	(55.426)	(70.935)	(71.677)
Carrying amount	**2.008.665**	**93.498**	**36.182**	**2.138.345**	**1.883.565**	**1.895.345**
At FVTPL						
Carrying amount	**11.597**	**-**	**-**	**11.597**	**12.522**	**-**
Total	**2.020.262**	**93.498**	**36.182**	**2.149.942**	**1.896.087**	**1.895.345**

In both 2018 and 2017 no loans that were written off in prior years were recovered.

Interest income on impaired loans and advances to customers accrued during the year amounted to €1.270 thousand (2017: €2.017 thousand).

The fair value of the Bank’s loans and advances to customers approximates their carrying amount at the balance sheet date as they bear interest at variable rates.

Notes to the financial statements

18 Investment securities

	31 December 2018 €'000	1 January 2018 €'000	31 December 2017 €'000
Investment securities at FVOCI	**476.279**	**341.241**	-
Investment securities at amortised cost	**276.571**	**192.780**	-
Investment securities mandatorily at FVTPL	**2.014**	**2.018**	-
Available-for-sale investment securities	**-**	**-**	304.100
Held-to-maturity investment securities	**-**	**-**	232.237
	754.864	**536.039**	536.337
Maturity analysis:			
Current	**145.804**		100.960
Non-current	**609.060**		435.377
	754.864		536.337

The table below discloses the gross carrying amount, impairment allowances and carrying amount per stage of investment securities as at 31 December 2018:

	31 December 2018	
	12-month ECL €'000	**Total €'000**
Debt securities at amortised cost:		
- Gross carrying amount	277.117	**277.117**
- Impairment allowance	(546)	**(546)**
Carrying amount	**276.571**	**276.571**
Debt securities at FVOCI:		
Carrying amount	**476.279**	**476.279**
Total of debt securities	**752.850**	**752.850**
Other investment securities at FVTPL:		
Equity shares		117
UCIT funds		1.897
Carrying amount		**2.014**
Total of investment securities		**754.864**

18 Investment securities (continued)

The investment securities per category are analysed as follows:

	31 December 2018			
	Investment securities at FVOCI €'000	**Investment securities at amortised cost €'000**	**Investment securities at FVTPL €'000**	**Total €'000**
Debt securities:				
- Cyprus government bonds	101.168	276.571	-	**377.739**
- Other government bonds	8.871	-	-	**8.871**
- Multilateral development banks	123.077	-	-	**123.077**
- Banks and financial institutions	125.185	-	-	**125.185**
- Other issuers	117.978	-	-	**117.978**
Total debt securities	**476.279**	**276.571**	-	**752.850**
Other investment securities:				
Equity shares	**-**	**-**	117	117
UCIT funds	**-**	**-**	1.897	1.897
Total other investment securities	**-**	**-**	**2.014**	**2.014**
Total of investment securities	**476.279**	**276.571**	**2.014**	**754.864**

	31 December 2017		
	Available-for-sale securities €'000	**Held-to-maturity securities €'000**	**Total €'000**
Debt securities:			
- Cyprus government bonds	120.712	193.529	**314.241**
- Other government bonds	36.564	-	**36.564**
- Multilateral development banks	-	-	**-**
- Banks and financial institutions	41.854	-	**41.854**
- Other issuers	102.952	38.708	**141.660**
Total debt securities	**302.082**	**232.237**	**534.319**
Other investment securities:			
Equity shares	160	-	**160**
UCIT funds	1.858	-	**1.858**
Total other investment securities	**2.018**	**-**	**2.018**
Total of investment securities	**304.100**	**232.237**	**536.337**

All investment securities, with the exception of UCIT funds, are listed.

18 Investment securities (continued)

The movement of investment securities in 2018 is as follows:

	Investment securities at FVOCI €'000	Investment securities at amortised cost €'000	Investment securities at FVTPL €'000	Total €'000
Gross carrying amount at 1 January	**341.241**	**192.780**	**2.018**	**536.039**
Additions	261.571	91.015	-	**352.586**
Disposals and redemptions	(130.694)	-	-	**(130.694)**
Maturities and redemptions	-	(7.580)	-	**(7.580)**
Amortisation of discounts/premiums and interest	400	(367)	-	**33**
Net losses from changes in fair values	(7.282)	-	(43)	**(7.325)**
Changes in fair value due to hedging	-	520	-	**520**
Foreign exchange	11.043	-	39	**11.082**
Gross carrying amount at 31 December	**476.279**	**276.368**	**2.014**	**754.661**
Reversal of impairment allowance	-	203	-	**203**
Carrying amount at 31December	**476.279**	**276.571**	**2.014**	**754.864**

All investment securities at FVOCI and investment securities at amortised cost are classified in 12-month ECL category.

The movement of investment securities in 2017 is as follows:

	Available-for-sale securities €'000	Held-to-maturity securities €'000	Total €'000
Carrying amount at 1 January	**236.011**	**337.640**	**573.651**
Additions	141.546	48.143	**189.689**
Disposals and redemptions	(71.898)	-	**(71.898)**
Maturities and redemptions	-	(151.354)	**(151.354)**
Amortisation of discounts/premiums and interest	(123)	-	**(123)**
Net gains/(losses) from changes in fair values	10.211	-	**10.211**
Interest accrued	-	9.794	**9.794**
Interest received	-	(11.986)	**(11.986)**
Foreign exchange	(11.647)	-	**(11.647)**
Carrying amount at 31 December	**304.100**	**232.237**	**536.337**

18 Investment securities (continued)

Fair value reserve: Revaluation of investment securities

The fair value reserve comprises:
- the cumulative net change in fair value of equity securities measured at FVOCI (2017: Available-for-sale financial assets); and
- the cumulative net change in the fair value of debt securities measured at FVOCI (2017: Available-for-sale financial assets) until the assets are derecognized or reclassified. This amount is increased by the amount of loss allowance.

The movement of the reserve is as follows:

	2018	2017
	€'000	€'000
Balance at 1 January	**16.215**	6.950
Impact of adopting of IFRS 9	**1.446**	-
Balance at 1 January, as restated	**17.661**	6.950
Net (losses)/gains from changes in fair value	**(5.273)**	10.211
Net losses from investment securities transfer to Income Statement due to disposal	**(2.009)**	(946)
Impairment allowance of investment securities at FVOCI	**(381)**	-
Balance at 31 December	**9.998**	16.215

19 Investments in subsidiaries

The subsidiary companies and their principal activity are described below:

Name	*Participation*	*Principal activities*	**2018 €'000**	2017 €'000
Foramonio Ltd	100%	Investing activities	**1**	1
Densho Investments Ltd	100%	Investing activities	**-**	1
Lenevino Holdings Ltd	100%	Investing activities	**1**	1
Mesal Holdings Ltd	100%	Investing activities	**-**	1
Neviko Ventures Ltd	100%	Investing activities	**1**	-
Rano Investments Ltd	100%	Investing activities	**1**	-
			4	4

All companies are registered and operate in Cyprus and have been set up to acquire properties from customers in settlement of their obligations with the Bank.

During the year Neviko Ventures Ltd and Rano Investments Ltd were set up with a share capital of €1 thousand each.

Densho Investments Ltd and Mesal Holdings Ltd were disposed during the year with a profit of €2.159 thousand and €17 thousand, respectively.

During 2017, Kamlo Investments Ltd was set up with a share capital of €1 thousand and was subsequently disposed with a profit of €48 thousand.

Profits arising on the disposal of subsidiaries are included in “Other income” in the Income Statement.

20 Property, plant and equipment

	Leasehold improvements €'000	Motor vehicles and motor cycles €'000	Equipment €'000	**Total €'000**
At 1 January 2017				
Cost	9.575	128	4.743	**14.446**
Accumulated depreciation	(4.038)	(120)	(3.018)	**(7.176)**
Carrying amount	**5.537**	**8**	**1.725**	**7.270**
Year ended 31 December 2017				
At 1 January	5.537	8	1.725	**7.270**
Additions	709	-	381	**1.090**
Disposals and write offs	(3)	(1)	(6)	**(10)**
Depreciation charge (note 11)	(1.044)	(5)	(481)	**(1.530)**
At 31 December	**5.199**	**2**	**1.619**	**6.820**
At 31 December 2017				
Cost	10.279	76	5.007	**15.362**
Accumulated depreciation	(5.080)	(74)	(3.388)	**(8.542)**
Carrying amount	**5.199**	**2**	**1.619**	**6.820**
Year ended 31 December 2018				
At 1 January	5.199	2	1.619	**6.820**
Additions	848	-	749	**1.597**
Disposals and write offs	(2)	-	(4)	**(6)**
Depreciation charge (note 11)	(958)	(1)	(465)	**(1.424)**
At 31 December	**5.087**	**1**	**1.899**	**6.987**
At 31 December 2018				
Cost	11.125	76	5.701	**16.902**
Accumulated depreciation	(6.038)	(75)	(3.802)	**(9.915)**
Carrying amount	**5.087**	**1**	**1.899**	**6.987**

Leasehold improvements relate to premises occupied by the Bank for its own activities.

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

	2018 €'000	2017 €'000
Carrying amount	**6**	10
Loss on sale of property, plant and equipment	**(6)**	(3)
Proceeds from sale of property, plant and equipment as per cash flow statement	**-**	7

21 Intangible assets

	Computer licences & software €'000	Total €'000
At 1 January 2017		
Cost	6.337	**6.337**
Accumulated amortisation	(3.552)	**(3.552)**
Carrying amount	**2.785**	**2.785**
Year ended 31 December 2017		
At 1 January	2.785	**2.785**
Additions	1.734	**1.734**
Amortisation charge (note 11)	(850)	**(850)**
At 31 December	**3.669**	**3.669**
At 31 December 2017		
Cost	8.120	**8.120**
Accumulated amortisation	(4.451)	**(4.451)**
Carrying amount	**3.669**	**3.669**
Year ended 31 December 2018		
At 1 January	3.669	**3.669**
Additions	850	**850**
Amortisation charge (note 11)	(1.019)	**(1.019)**
At 31 December	**3.500**	**3.500**
At 31 December 2018		
Cost	8.970	**8.970**
Accumulated amortisation	(5.470)	**(5.470)**
Carrying amount	**3.500**	**3.500**

22 Other assets

	2018 €'000	2017 €'000
Prepaid expenses	**856**	734
Deferred tax asset (note 13)	**28**	-
Other assets	**286**	1.153
	1.170	1.887

Maturity analysis:	2018 €'000	2017 €'000
Current	**115**	986
Non-current	**1.055**	901
	1.170	1.887

None of these financial assets are either past due or credit-impaired.

23 Due to credit institutions

	2018 €'000	2017 €'000
Deposits to credit institutions	**416.683**	422.752
Settlement balances with credit institutions	**91.671**	137.711
	508.354	560.463
Maturity analysis:		
Current:		
- on demand up to 7 days	**91.696**	141.226
- 7 days up to 3 months	**337.951**	322.491
- 3 months to 1 year	**36.344**	35.135
	465.991	498.852
Non-current:		
- 1 to 5 years	**-**	15.033
- after 5 years	**42.363**	46.578
	42.363	61.611
	508.354	560.463

Amounts due to credit institutions are categorised as financial liabilities measured at amortised cost (2017: other financial liabilities at amortised cost).

24 Due to customers

	2018 €'000	2017 €'000
Current accounts	**2.605.489**	2.211.931
Notice accounts	**22.024**	11.224
Term deposits	**2.182.407**	2.042.023
Repurchase agreements	**30.061**	-
	4.839.981	4.265.178
Maturity analysis:		
- up to 1 month	**3.475.304**	2.985.395
- between 1 month and three months	**524.797**	467.820
- between three months and one year	**835.139**	807.119
- between one year and five years	**4.741**	3.593
- more than five years	**-**	1.251
	4.839.981	4.265.178

Following the transition to IFRS 9, the Bank has revoked the fair value option designation under IAS 39 for structured deposits and measures them at amortised cost after separating the embedded derivatives from the host contracts.

Total client deposits pledged as collateral for credit facilities granted to clients as at 31 December 2018 amounted to €847.041 thousand (2017: €939.126 thousand).

Amounts due to customers are categorised as financial liabilities measured at amortised cost (2017: other financial liabilities at amortised cost).

Special levy on total deposits is imposed by legislation to all Banks and Credit Institutions operating in Cyprus.

24 Due to customers (continued)

The special levy is calculated on the level of deposits at previous quarter-end at the rate of 0,0375% per quarter and is payable in quarterly instalments. The government levy on customer deposits for the year ended 31 December 2018 amounted to €5.343 thousand (2017: €4.924 thousand). Following an amendment of the Imposition of Special Credit Institution Tax Law in 2017, the Single Resolution Fund contribution which is charged annually by the Single Resolution Board, is offset by the special levy up to the level of the total annual special levy charge. The 2018 government levy is net of €1.324 thousand (2017: €1.011 thousand) relating to the contribution to the Single Resolution Fund.

25 Other liabilities

	2018 €'000	2017 €'000
Current income tax liability	**1.398**	706
Impairment allowance for expected credit losses on financial guarantees and credit related commitments and loan commitments (note 4.2.1.3)	**394**	-
Deferred tax liability (note 13)	**-**	57
Balances under settlement relating to bank cheques	**24.092**	24.163
Other liabilities and accruals [1]	**21.814**	22.871
	47.698	47.797

	2018 €'000	2017 €'000
Maturity analysis:		
Current	**47.698**	47.740
Non-current	**-**	57
	47.698	47.797

[1]Other liabilities and accruals include commissions and consultancy fees of €214 thousand (2017: €198 thousand) payable to Eurobank Ergasias S.A. (note 31 (i), included in "Other liabilities").

26 Share capital

The par value of the Bank's shares is €10 thousand per share. All shares are fully paid.

The movement of share capital and share premium is as follows:

	No. of shares	Ordinary shares €'000	Share premium €'000	**Total €'000**
Authorised				
At 31 December 2018 & 2017	**1.500**	**15.000**	**-**	**15.000**
Issued				
At 31 December 2018 & 2017	**1.201**	**12.010**	**245.384**	**257.394**

26 Share capital (continued)

There were no changes in the Bank's share capital during the years ended 31 December 2018 and 2017.

All the shares have the same rights.

There are no restrictions on the transfer of ordinary shares and no restrictions on the exercise of voting rights other than the restrictions imposed by the Business of Credit Institutions Law of Cyprus which provides that the approval of the Central Bank of Cyprus is required before the acquisition of shares in the Company, exceeding certain thresholds.

There are no restrictions on the payment of dividends other than those imposed by the Business of Credit Institutions Law of Cyprus under certain circumstances.

Dividends

Net profit for the year ended 31 December 2018 is retained. The Board of Directors will consider during 2019 the payment of a dividend.

In 2017, the Board of Directors at a Board meeting of 28 December 2017, proposed at a Shareholders' Extraordinary General Meeting which took place on the same date after the Board meeting, the payment of a dividend distribution of €50 million or €41,6 thousand per share. The Board of Directors proposal was approved at the shareholders' meeting and the dividend was executed on the same day.

27 Operating lease commitments – where the Bank is the lessee

The Bank leases various offices under non-cancellable operating lease agreements with varying terms and renewal rights. The future aggregate minimum lease payments under non-cancellable building operating leases are as follows:

	2018	2017
	€'000	€'000
Not later than one year	**1.617**	1.404
Later than one year and not later than five years	**2.995**	995
Later than five years	**6.847**	-
	11.459	2.399

28 Contingencies and commitments

The Bank presents the credit related commitments it has undertaken within the context of its lending related activities into the following three categories: a) financial guarantee contracts, which refer to guarantees and standby letters of credit that carry the same credit risk as loans (credit substitutes), b) commitments to extend credit, which comprise firm commitments that are irrevocable over the life of the facility or revocable only in response to a material adverse effect and c) other credit related commitments, which refer to documentary and commercial letters and other guarantees.

28 Contingencies and commitments (continued)

	2018	2017
	€'000	€'000
Contingent liabilities:		
Financial guarantee contracts	**161.220**	120.090
Credit related commitments	**6.126**	8.077
	167.346	128.167
Commitments:		
Loan commitments	**368.946**	312.544

Impairment allowance for expected credit losses on credit related commitments and contingent liabilities is presented within "Other liabilities" (note 25).

Capital commitments

As at 31 December 2018 commitments for contracted capital expenditures for the Bank amounted to €58 thousand (2017: €339 thousand).

Legal proceedings

As at 31 December 2018 and 2017 there were no significant pending litigation, claims or assessments against the Bank, the outcome of which would have a material effect on the Bank's financial position or operations.

29 Fiduciary activities

The Bank provides custody, investment management and advisory services to third and related parties which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. At the balance sheet date the Bank had investment custody accounts, including fiduciary assets, with fair value amounting to approximately €2.211.830 thousand (2017: €2.115.540 thousand).

30 Cash and cash equivalents on cash flow statement

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of three months or less:

	2018	2017
	€'000	€'000
Cash in hand (note 14)	**7.994**	7.299
Balances with credit institutions (note 15)	**2.151.759**	2.335.755
Balances with central banks, excluding mandatory deposits (note 14)	**711.522**	454.509
	2.871.275	2.797.563

31 Related party transactions and balances

The immediate controlling party of the Bank is ERB New Europe Holding B.V. registered in the Netherlands. Eurobank Ergasias S.A., who is the ultimate parent company, produces consolidated financial statements available for public use, owns 100% of the shares of ERB New Europe Holding B.V.

In November 2015, following the completion of Eurobank Ergasias S.A.'s share capital increase, fully covered by investors, institutional and others, the percentage of Eurobank Ergasias S.A.'s ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 35,41% to 2,38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over Eurobank Ergasias S.A. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in Eurobank Ergasias S.A.'s General Assembly only for decisions concerning the amendment of Eurobank Ergasias S.A.'s Articles of Association, including the increase or decrease of Eurobank Ergasias S.A.'s capital or the granting of a corresponding authorisation to Eurobank Ergasias S.A.'s Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of Eurobank Ergasias S.A., the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, Eurobank Ergasias S.A. has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014, which regulates, among others, (a) Eurobank Ergasias S.A.'s corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of Eurobank Ergasias S.A.'s Non-Performing Loans (NPLs) management framework and of its performance on NPL resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of Eurobank Ergasias S.A.'s actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for Eurobank Ergasias S.A.'s Group Risk and Capital Strategy and for its Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in Eurobank Ergasias S.A.'s Board.

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These mainly include loans, deposits, derivatives, repurchase agreements, lien agreements and guarantees. In addition, as part of its normal course of business in investment banking activities, the Bank at times may hold positions in debt and equity instruments of related parties.

31 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances:

The outstanding balances and transactions with related parties are as follows:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)		With key management personnel	
	2018	2017	**2018**	2017	**2018**	2017
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Balances:						
Due from credit institutions (1)	**1.954.529**	2.131.175	**210**	1.337	**-**	-
Loans and advances to customers (2)	**-**	-	**323.287**	338.474	**477**	606
Derivative financial instruments – Assets	**3.717**	486	**-**	-	**-**	-
Other assets	**-**	-	**-**	35	**-**	-
Due to credit institutions (3)	**428.753**	439.315	**-**	-	**-**	-
Derivative financial instruments – Liabilities	**658**	4.997	**-**	-	**-**	-
Due to customers (4)	**-**	-	**18.633**	5.905	**2.934**	2.935
Other liabilities	**301**	240	**441**	580	**-**	-
Transactions:						
Interest income (5)	**24.510**	18.252	**7.608**	13.283	**13**	17
Interest expense	**5.697**	7.149	**-**	2	**18**	25
Banking fee and commission income	**622**	580	**9**	-	**-**	-
Banking fee and commission expense – fees on lien agreement	**2.090**	2.062	**-**	-	**-**	-
Banking fee and commission expense – other	**493**	388	**387**	160	**-**	-
Net trading income/(loss)	**118**	(41)	**-**	-	**-**	-
Staff costs excluding retirement benefit costs	**-**	-	-	-	**1.375**	1.264
Defined contribution plan	**-**	-	-	-	**128**	128
Directors' remuneration	**-**	-	-	-	**894**	821
Other operating expenses	**357**	351	**24**	122	**-**	-

Key management personnel include directors and key management personnel of the Bank, their close family members and entities controlled or jointly controlled by them.

(1) Amounts due from credit institutions include reverse repurchase agreements with Eurobank Ergasias S.A. of €1.933.756 thousand (2017: €2.118.536 thousand) (note 15).

31 Related party transactions and balances (continued)

(i) Related party transactions and outstanding balances (continued):

(2) Loans and advances to customers with Eurobank Ergasias S.A. Group include loans and advances to the Bank's direct subsidiaries of €12.378 thousand (2017: €6.806 thousand).

Total collaterals in relation to loans and advances to key management personnel amounted to €434 thousand (2017: €504 thousand).

(3) On 31 March 2010, Eurobank Ergasias S.A. advanced the sum of €40 million to the Bank. The interest rate of the loan was set at an annual rate equal to 3 month LIBOR plus 65 basis points and reprised to 3 month LIBOR plus 275 basis points on 18 December 2013. The loan had a tenor of ten years. After 31 March 2015 the Bank has the option to call in any part of the loan subject to the prior consent of the Central Bank of Cyprus. The loan was not secured and the rights and claims of Eurobank Ergasias S.A. were subordinated to the claims of all other creditors of the Bank except the holders of other subordinated indebtedness of the same type (lower tier II) of the Bank. On 15 June 2017, following the consent of the European Central Bank, the loan was repaid in full.

(4) Due to customers with Eurobank Ergasias S.A. Group include balances with the Bank's direct subsidiaries of €27 thousand (2017: €28 thousand).

(5) Interest income from Eurobank Ergasias S.A. Group includes income from the Bank's direct subsidiaries of €65 thousand (2017: €4 thousand).

(ii) Lien agreements

As of 31 December 2018 and 2017, the Bank has in place lien agreements from Eurobank Ergasias S.A., which act as guarantees for the purposes of securing the following assets as of the reporting date:

	2018 €'000	2017 €'000
Loans and advances to customers	**352.706**	339.490

Based on the Lien agreements, in case of default of any of the issuers of the underlying assets, the Bank can set off the receivable amounts with the equivalent funds placed by Eurobank Ergasias S.A.

On 28 September 2012 the Bank and Eurobank Ergasias S.A. signed a memorandum of understanding whereby the latter assumes the credit losses arising from the credit facility extended by the Bank to ERB New Europe Funding II B.V., a group subsidiary, for any amount exceeding the amount of €15 million on an annual basis, and establish a pledge, in favour of the Bank over a deposit held in its name with the Bank. The loans and advances to customers subject to these arrangements amounted to €35.206 thousand as at 31 December 2017. The memorandum was terminated in June 2018. From termination to 31 December 2018 these loans and advances to customers were secured under the lien agreements mentioned above and as at 31 December 2018 they amounted to €36.335 thousand.

Notes to the financial statements

32 Events after the balance sheet date

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