



HELLENIC BANK

30th March, 2018

ANNOUNCEMENT

Subject: Annual Financial Report of Hellenic Bank Group for the year ended 31st December 2017

Hellenic Bank Public Company Ltd (“the Bank”) announces that the Board of Directors of the Bank, during its meeting held yesterday, approved, inter alia, the Annual Financial Report of Hellenic Bank Group for the year ended 31st December 2017.

Please find attached the above-mentioned Report of the Group in Greek and in English, as well as the Financial Results presentation (in English).

Kindly note that copies of the Annual Financial Report for the year 2017 are available at the Financial Management Department, Hellenic Bank, Head Office, Corner Limassol Avenue & 200 Athalassas Avenue, Strovolos, Nicosia, 5th floor. The Report will also be available on the Bank’s website www.hellenicbank.com.

HELLENIC BANK PUBLIC COMPANY LTD

HELLENIC BANK PUBLIC COMPANY LIMITED

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HELLENIC BANK

Hellenic Bank Group

Annual Financial Report

For the year ended 31 December 2017

Hellenic Bank Group
Annual Financial Report
For the year ended 31 December 2017
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HELLENIC BANK PUBLIC COMPANY LIMITED MANAGEMENT REPORT

INCORPORATION, ACTIVITIES AND BRANCH NETWORK

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

The principal activity of the Group during 2017 continued to be the provision of a wide range of banking and financial services, which include financial, investment and insurance services, custodian and factoring services as well as management and disposal of properties.

The Bank provides banking and financial services through its branch network. As at 31 December 2017 the branch network included 51 branches in Cyprus as well as representative offices in South Africa, Ukraine and Russia.

For further details and recent developments on the Group's structure refer to Note 21 and to Note 22 of the Financial Statements.

EXAMINATION OF THE DEVELOPMENT POSITION, AND PERFORMANCE OF THE GROUP'S ACTIVITIES¹

The Group's loss before taxation for the year ended 31 December 2017 amounted to €48,5 million (Bank: loss €50,7 million) compared to a loss of €12,0 million (Bank: loss €14,3 million) reported for the year ended 31 December 2016. As part of its strategic plan, the Group completed a Voluntary Early Exit Scheme (VEES) in December 2017. The VEES was in line with the rules of Corporate Governance and offered staff the right to depart voluntarily from the Group, with an ex gratia amount. Adjusting for Group's non-recurring VEES cost of €41,3 million (Bank: €38,3 million), Group's loss before taxation for the year ended 31 December 2017 amounted to €7,2 million (Bank: loss €12,4 million).

During 2017, a deferred tax asset of €3,5 million was recognised and credited in the income statement (31 December 2016: charge €50,1 million). The derecognition of the deferred tax asset of €51,2 million in 2016 resulted from tax losses for which it was no longer probable that the related tax benefit will realise.

Loss attributable to the Bank's shareholders for the year ended 31 December 2017 amounted to €45,7 million compared to a loss of €63,5 million for the year ended 31 December 2016.

As at 31 December 2017, the Group's total assets amounted to €6,85 billion down by 3% (Bank: decrease of 3%) compared to 31 December 2016. The decrease was mainly driven by the decrease in the non performing exposures of the Bank and the debt securities portfolio.

Income Statement Analysis

Net interest income

The Group's net interest income for the year ended 31 December 2017 was €131,2 million (Bank: €131,0 million), down by 11% (Bank: decrease of 11%) compared to €147,5 million (Bank: €147,1 million) for the year ended 31 December 2016. The main factors that contributed to the decrease of net interest income were the downward trend of lending rates in 2017 primarily affecting the performing loan portfolio and the decreasing carrying amount of the impaired loan portfolio. The Group's net interest margin for the year ended 31 December 2017 amounted to 2,03% (31 December 2016: 2,15%).

1. The Group's Financial Statements and the Group's Financial Results presentation for the year ended 31 December 2017 are available on the Group's website www.hellenicbank.com (Investor Relations). The Financial Statements are also available at the Bank's registered office.

Non-interest income

The Group's total non-interest income for the year ended 31 December 2017 amounted to €103,3 million (Bank: €90,5 million), recording an increase of 3% (Bank: marginal % increase) compared to €100,2 million for the year ended 31 December 2016 (Bank: €90,2 million) mainly due to higher other income.

Other income for the year ended 31 December 2017 included a net gain of €19,0 million from the disposal of the operations of the Arrears Management Division (AMD) of the Bank.

Net fee and commission income for the year ended 31 December 2017 was €45,3 million (Bank: €48,1 million) down by 13% (Bank: down by 9%), compared to the year ended 31 December 2016 with the decrease mainly reflecting reduced fees and commission income in the International Business Division due to the Bank's continuous efforts to reposition its strategy on the said business.

The Group's and the Bank's net gains on disposal and revaluation of foreign currencies and financial instruments for the year ended 31 December 2017 were €12,4 million and €12,5 million respectively, down by 55% compared to €27,4 million for the year ended 31 December 2016, with the reduction being mainly due to the gain of €14,0 million from the disposal of the shares in Visa Europe Limited included in the year 2016 results.

Expenses

Group's total expenses for the year ended 31 December 2017 amounted to €200,9 million (Bank: €189,3 million), increased by 39% compared to €144,5 million (Bank: €136,4 million, increased by 39%), for the year ended 31 December 2016 primarily due to inflated administrative and other expenses as a result of the VEES.

Staff costs

Group's staff costs for the year ended 31 December 2017 amounted to €86,9 million compared to €82,0 million the year ended 31 December 2016, recording an increase of 6% and accounted for 43,3% of the Group's total expenses. The Bank's staff costs for the year ended 31 December 2017 amounted to €81,6 million compared to €76,6 million the year ended 31 December 2016, recording an increase of 7% and accounting for 43,1% of the Bank's total expenses. The increase was mainly as a result of the signing of the collective agreement with the Cyprus Union of Bank Employees (ETYK) (effective from 1 January 2017). Following the VEES, the Group and the Bank reassessed the practice of accruing for vesting accumulated paid absences. Analysis of staff costs is disclosed in Note 10 of the Financial Statements.

Administrative and other expenses

The Group's total administrative and other expenses for the year ended 31 December 2017 amounted to €105,8 million with 88% increase compared to €56,4 million for the year ended 31 December 2016. The Bank's total administrative and other expenses for the year ended 31 December 2017 amounted to €99,8 million with 85% increase compared to €53,9 million for the year ended 31 December 2016. The yearly increase was largely driven by the cost of the VEES of €41,3 million for the Group and €38,3 million for the Bank and the APS Cyprus administration fees of €9,2 million for the Group and €8,7 million for the Bank.

Analysis of total fees for statutory auditors is disclosed in Note 11 of the Financial Statements.

The Group's cost to income ratio for the year ended 31 December 2017 was 85,7% compared to 58,3% for the year ended 31 December 2016 whereas the Bank's cost to income ratio for the year ended 31 December 2017 was 85,5% in comparison to 57,5% for 2016 and was negatively affected by the VEES cost.

Impairment losses and provisions to cover credit risk

The Group's and the Bank's total impairment losses and provisions to cover credit risk for the year ended 31 December 2017 amounted to €82,9 million compared to €115,2 million for the year ended 31 December 2016, recording a decrease of 28%.

During 2017 the Bank proceeded with certain amendments to the parameters and assumptions for estimating the recoverable amount of property collateral values used in its provisioning methodology, relating primarily to the elimination of forward looking indexation in its collateral prices and the adoption of higher liquidation discounts at the point of sale. The amendments were made in the context of the International Financial Reporting Standards and took into account the Bank's accelerated plans for resolving problem loans, latest market developments, as well as the ongoing regulatory engagement with European Central Bank (ECB) as part of the 2017 Supervisory Review and Evaluation Process (SREP).

The cost of risk for the year ended 31 December 2017 was 2,1% (31 December 2016: 2,8%).

Statement of Financial Position Analysis

Deposits

The Group's and the Bank's customer deposits amounted to €5.808 million as at 31 December 2017 (31 December 2016: €6.111 million). They comprised of €4.656 million deposits in Euro (Euro deposits as at 31 December 2016: €4.599 million) and €1.153 million deposits in foreign currencies (foreign currency deposits as at 31 December 2016: €1.512 million), mostly in US Dollars. Trends in customer deposits reflect the Bank's strategy to maintain a low cost of deposits considering its existing strong liquidity position. The €360 million decrease in the foreign currency deposits, of which €136 million was mainly due to the weakening of the US Dollar against the Euro, is aligned with the Bank's efforts to reposition its strategy on the operations of the International Business Unit.

The Bank's deposits market share² as at 31 December 2017 was 11,9% (31 December 2016: 12,6%).

Loans

The Group's and the Bank's total new lending approved during the year ended 31 December 2017 reached €525,8 million (2016: €353,7 million). The Bank continued providing lending to creditworthy businesses and households while examining other growth opportunities. Gross loans as at 31 December 2017 amounted to €4.055 million, down by 6% compared to 31 December 2016 (€4.300 million). The performing loan portfolio increased by 5% while the non-performing loan portfolio decreased by 14% offsetting the new lending effect on total gross loans. During 2017 exposures of €147,8 million were written off (2016: €160,5 million).

The Bank's loan market share² as at 31 December 2017 was 8,1% (31 December 2016: 7,7%).

The Group's and the Bank's net loans to deposits ratio stood at 47,6% as at 31 December 2017 (31 December 2016: 47,9%).

Loan Portfolio Quality

On 3 July 2017, the Bank announced that it had sold its Non-Performing Loan (NPL) and real estate (REO portfolio) management business, to a newly established entity, APS Debt Servicing Cyprus Ltd (APS Cyprus) which is a member of the APS Holding a.s. (APS Holding) group of companies. The new entity is owned 51% by APS Holding and 49% by Hellenic Bank. The transfer of business was completed on 30 June 2017, while APS Cyprus commenced operations on 3 July 2017.

Another step within the context of the Bank's "Fix" strategy, was the agreement³ to sell a non-performing loan portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange (the transaction/the NPE trade agreement).

The gross contractual outstanding balance of the portfolio was €145 million comprising of 1.158 borrowers and 1.977 facilities (in each case as at September 2017). The NPE trade agreement is not expected to have a material impact on the income statement and capital position of the Bank due to existing provisions taken against these assets.

2. Source: Central Bank of Cyprus (CBC) and Hellenic Bank.

3. See announcement dated 2 January 2018 (Agreement to sell a portfolio of non-performing loans) posted on the Group's website www.hellenicbank.com (Investor Relations).

The NPE trade agreement is in line with the ECB and International Monetary Fund guidelines on the management of non-performing loans. In addition to organic reduction of the problematic portfolio, the Bank continues to explore the process of de-risking its non-performing exposures through portfolio disposals and other transactions.

The finalisation of the transaction is subject to the completion of the required procedures under the relevant legislation, the obtaining of applicable approvals and clearances from the relevant regulatory authorities and is targeted to be achieved during the second quarter of 2018. As at 31 December 2017, the carrying amount of the said non-performing loan portfolio, was classified under other assets.

Taking into account the NPE trade agreement, the level of NPEs⁴ has been reduced to €2.162 million at 31 December 2017, down by 14% compared to the €2.504 million at 31 December 2016. The pre - NPE trade agreement NPEs amounted to €2.294 million as at 31 December 2017 registering an 8% decrease compared to 31 December 2016. The decrease was mainly driven by the curing of restructured loans, collections, debt to asset swaps and write offs. Terminated loans included in NPEs amounted to €1.551 million as at 31 December 2017 (31 December 2016: €1.593 million). Gross loans with forbearance measures as at 31 December 2017 amounted to €1.081 million (31 December 2016: €1.311 million).

An amount of €491 million⁵ relating to total customers' exposures, was restructured during 2017, while an amount of €147,8 million was written off as part of the whole restructuring process. The stock of properties held for sale, which are mostly from customers' debt settlement, amounted to €148,2 million as at 31 December 2017 (31 December 2016: €117,7 million). The movement in the balance of stock of properties held for sale for 2017 included an amount of €95,0 million of additions and an amount of €64,1 million⁶ of disposals.

The Group's and the Bank's NPEs to gross loans ratio as at 31 December 2017 was reduced to 53,3% (31 December 2016: 58,2%). The pre-NPE trade agreement NPEs to gross loans ratio as at 31 December 2017 was 54,8%.

Accumulated impairment losses⁷ amounted to €1.288 million as at 31 December 2017 (31 December 2016: €1.374 million) and represented 31,8% of the total gross loans (31 December 2016: 32,0%).

The NPEs provision⁷ coverage stood at 59,6% as at 31 December 2017 (31 December 2016: 54,9%). Taking into account tangible collaterals⁸ the overall NPEs coverage was 114,6%, while the net NPEs collateral coverage stood at 136,2% as at 31 December 2017. Without the effect of the NPE trade agreement, the ratios are adjusted to 61,6%, 113,8% and 136,0% respectively.

SHARE CAPITAL

At 31 December 2017, 198.474.712 fully paid shares were in issue, with a nominal value of €0,50 each (2016: 198.474.712 fully paid shares with a nominal value €0,50 each).

Details on the development of the share capital are disclosed in Note 32 of the Financial Statements.

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

The Bank does not have any shares in issue which carry special control rights.

LOAN CAPITAL

Loan capital developments are disclosed in Note 31 of the Financial Statements.

4. Gross carrying amount, including the contractual interest on impaired loans.

5. As per EBA definition - account basis (includes debt to asset settlements and write-offs).

6. In 1 Quarter of 2017, the Bank disposed the 100% shareholding in Anolia Holdings Ltd with a book value of €40,6 million.

7. Individual and collective impairment losses.

8. Based on open market values (capped at client exposure).

CAPITAL BASE AND ADEQUACY

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

Under Pillar I (transitional basis), the Capital Adequacy Ratio of the Group as at 31 December 2017 was 17,86% (Bank: 17,80%) the Tier 1 Ratio was 17,71% (Bank: 17,65%) and the Common Equity Tier 1 Ratio (CET 1) was 14,12% (Bank: 14,07%).

The Group's risk weighted assets as at 31 December 2017 amounted to €3.420 million (Bank: €3.424 million) (31 December 2016, Group: €3.744 million, Bank: €3.748 million).

As at 31 December 2017 the Leverage Ratio⁹ for the Group was 8,59% (Bank: 8,57%) compared to 8,75% (Bank: 8,74%) as at 31 December 2016. The Leverage Ratio on a fully loaded basis for the Group was formed at 8,56% (Bank: 8,54%) compared to 8,71% (Bank: 8,70%) as at 31 December 2016.

Details of the capital management of the Group are disclosed in Note 47 of the Financial Statements.

ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARD

Effective from 1 January 2018, IFRS 9 "Financial Instruments" replaces the requirements set out by IAS 39 "Financial Instruments: Recognition and Measurement" for recognition and measurement of both financial assets and liabilities. The Group established an IFRS 9 action plan in order to ensure a high quality implementation in compliance with the standard and additional regulatory guidance. The plan, which mainly involves the Finance, Risk functions and external consultants, included defining IFRS 9 methodology and accounting policy, development of Expected Credit Losses (ECL) models, identifying data and system requirements, and establishing an appropriate operating model and governance framework.

Based on current estimates, the Bank expects the adoption of IFRS 9 to lead to an overall decrease in shareholders' equity of €33,9 million net of tax mainly driven by the new impairment requirements. The Bank will adopt the transitional arrangements in order to mitigate the negative impact on CET 1 capital arising from ECL provisions which is manageable and well within the Group's capital plans.

Details of the IFRS 9 requirements and impact are disclosed in Note 2 of the Financial Statements.

DIVIDEND

The Bank is currently under a regulatory dividend distribution prohibition and therefore the Board of Directors of the Bank does not propose the payment of a dividend for the year ended 31 December 2017 at the shareholders' Annual General Meeting. No dividend was paid or proposed for the year ended 31 December 2016.

STRATEGIC TARGETS AND OUTLOOK

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

9. According to the Regulation (EU) No 2015/62 of the European Parliament and Council dated 10 October 2014.

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

As part of its NPE strategy, the Bank disposed the operations of the AMD, to a newly established entity APS Debt Servicing Cyprus Ltd (APS Cyprus) which commenced operations in July 2017. Through the creation of the first debt servicing platform in the Cypriot market, the Bank is able to effectively tackle its NPEs in an accelerated way and with higher recoveries, leveraging on the knowhow, proven expertise and technical experience of APS Holding.

In addition to organic reduction of the problematic portfolio, the Bank remains focused to accelerate the de-risking of its non-performing exposures through portfolio disposals. Hence in December 2017, the Bank has entered into an agreement to sell a non-performing loan portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange.

In line with the Bank's strategic plan, a VEES was successfully completed which reduces the personnel expense base and improves the Bank's efficiency. In tandem, a new organisational structure has been introduced aiming to improve customer service and automate procedures.

As part of implementing its strategic targets, the Bank continues its pivotal role in the recovery of the real economy supporting creditworthy Cypriot businesses and households with a comprehensive range of quality banking services. The Bank maintains sufficient liquidity which allows the exploitation of opportunities, maintaining its focus on organic growth. The Bank estimates that there is potential and opportunities in various sectors of the economy. The focus of new loans will be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and commercial activities, manufacturing and tourism. At the same time, loans to the retail sector will be geared toward mortgages, small loans to new customers and supporting current clients who are deemed viable.

Through its focus on its "Fix" and "Build" initiatives, the Group has all the ingredients to continue the implementation of its strategy. At the same time, the operating environment remains challenging and the Bank will remain vigilant of developments to turn them into opportunities.

RISK MANAGEMENT

The Group is exposed to a variety of risks, the most important of which are described and analysed in Note 47 of the Financial Statements. The management and monitoring of risks is centralised under a uniform management, which covers the entire range of the Group's operations.

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

Details on agreements with members of the Board of Directors or the staff of the Bank are described in the 2017 Remuneration Policy Report.

CORPORATE GOVERNANCE STATEMENT

The Corporate Governance Code published by the Cyprus Stock Exchange (fourth Edition Revised – April 2014) has been fully adopted by the Bank's Board of Directors.

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

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

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

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

Details of restrictions in voting rights and special control rights in relation to the shares of the Bank are set out in the share capital section above.

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

SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

Shareholders holding more than 5% of the share capital of the Bank are disclosed in Note 39 of the Financial Statements.

ENVIRONMENTAL ISSUES

Hellenic Bank, in the context of its wider environmental culture and actions, plays a pioneering role in the field of energy management. It has established an Energy Management Policy five years ago, through which it has managed to reduce (2017 v. 2012) its energy consumption by almost 30%, as a result its CO2 emissions by over 20% and its electricity cost by over 50%.

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

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

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

EMPLOYEE MATTERS

The Bank following negotiation with the employees' representatives signed the Collective Agreement 2017 – 2018 and the Agreement relating to the transferred employees of Arrears Management Division to APS Debt Servicing Cyprus Ltd on 1 July 2017 in view of the sale of Non-Performing Loan & Real Estate Management business by the Bank to the said company.

A Culture and Engagement Survey was conducted to identify and implement practical and targeted initiatives and solutions for reinforcing the desired cultural attributes and enhancing the level of engagement of the Bank's human capital. In this context, Human Resources commenced, in December 2017, conducting meetings with a number of employees, for further enhancing the levels of communication, as well as for disseminating associated culture messages.

The Performance Appraisal System had been upgraded contributing towards a common sense of purpose, through the setting of individual objectives which are directly linked with the Bank's Corporate Priorities, as well as through the dissemination of the Bank's Corporate Values.

In addition, to create a healthier working environment, the Bank has amended the "Whistleblowing Policy" to be in line with best practices as well as the "Disciplinary Code" aiming to ensure a more effective protection of the employees' rights and fair treatment whilst protecting the interests of the Bank.

CORPORATE SOCIAL RESPONSIBILITY REPORT (CSR)

In line with the relevant legislation, the Bank is in the process of preparing a CSR report, which is required to be submitted to the Registrar of Companies by 30 June 2018.

PREPARATION OF PERIODIC REPORTS

The Group has in place an effective system of internal controls, the adequacy of which is evaluated at least annually by the Board of Directors and in more frequent intervals by the Board's Audit Committee, in respect of financial and operational systems as well as for compliance with any risk management regulations that may arise. The adequacy of the system of internal controls secures the validity of financial data and compliance with relevant legislation and aims to ensure the management of risks while providing reasonable assurance that no loss will incur.

The Group's internal audit and risk management systems incorporate effective procedures aiming at the identification and prevention of errors, omissions or fraud that could result in material misstatements during the preparation of Financial Statements and relevant disclosures which are included in the periodic reporting provided by the Group based on Part II of the Transparency Requirements Law (Securities admitted to trading on a Regulated Market) Laws of 2007 up to 2017.

EVENTS AFTER THE REPORTING PERIOD

There are no events after the reporting period to be disclosed in the Financial Statements.

BOARD OF DIRECTORS

The Members of the Board of Directors as at 31 December 2017 were the following:

Dr Evripides A. Polykarpou	Non-Executive Chairman
Marinos S. Yannopoulos	Non-Executive Vice Chairman
Irena A. Georgiadou	Non-Executive Member of the Board
Marianna Pantelidou Neophytou	Non-Executive Member of the Board
David Whalen Bonanno	Non-Executive Member of the Board
Christodoulos A. Hadjistavris	Non-Executive Member of the Board
Andreas Christofides	Non-Executive Member of the Board
Lambros Papadopoulos	Non-Executive Member of the Board
Andrew Charles Wynn	Non-Executive Member of the Board
Stephen John Albutt	Non-Executive Member of the Board
Demetrios Efstathiou	Non-Executive Member of the Board
Ioannis A. Matsis	Executive Member of the Board
Lars Kramer	Executive Member of the Board

During 2017 the changes in the Board of Directors of the Bank were as follows:

During the AGM on 24 May 2017, Ms Irena A. Georgiadou stated her intention not to continue serving as Chairwoman of the Board of Directors.

Following the AGM, the Board of Directors convened and decided to initiate the process for identifying the appropriate candidate for the position of the Chairperson of the Board. The Board also decided that, in the meantime, the Senior Independent Director Dr Evripides A. Polykarpou will be fulfilling the duties of the Chairman of the Board of Directors.

Mr Demetrios Efstathiou was appointed as an Independent Non-Executive Member of the Board of Directors of the Bank with effect from 29 May 2017.

On 10 July 2017, the Bank announced the appointment of Mr Lars Kramer as an Executive Member of the Board of Directors of the Bank and the resignation of Mr Georgios Fereos from the Board of Directors, with effect from 10 July 2017. Mr Fereos continues to serve the Bank as General Manager, Corporate Development & Products. Mr Kramer is the Chief Financial Officer of the Group.

The Bank announced that its Board of Directors, during its meeting held on 6 November 2017, decided to appoint Mr Youssef A. Nasr as a Member of the Board of Directors of the Bank. The appointment is subject to approval by the ECB. Following approval from the ECB and appointment to the Board of Directors of the Bank, Mr Nasr will be proposed for the position of the Chairman of the Bank.

In accordance with the Company's Articles of Association, Mr David Whalen Bonanno, Mr Andreas Christofides, Mr Lambros Papadopoulos, Mr Andrew Charles Wynn, Mr Demetrios Efstathiou and Mr Lars Kramer will retire, and being eligible, will offer themselves for re-election. The vacancies so created will be filled by election.

Reference to Directors' emoluments, fees and compensation is made in Note 38 of the Financial Statements.

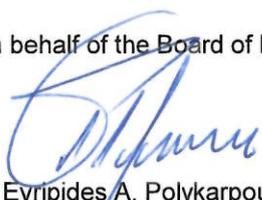
DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

The interest in the share capital of the Bank held by Members of the Board of Directors is disclosed in Note 37 of the Financial Statements.

INDEPENDENT AUDITORS

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

On behalf of the Board of Directors,



Dr Evripides A. Polykarpou
Chairman

Nicosia, 29 March 2018



KPMG Limited
Chartered Accountants
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Independent Auditors' report

To the Members of

HELLENIC BANK PUBLIC COMPANY LIMITED

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the accompanying consolidated financial statements of **Hellenic Bank Public Company Limited** (the "Bank") and its subsidiaries (the "Group"), and separate financial statements of the Bank which are presented on pages 16 to 140 and comprise the consolidated statement of financial position of the Group and the statement of financial position of the Bank as at 31 December 2017, and the consolidated income statement, statements of comprehensive income, changes in equity and cash flows of the Group, and the income statement and statements of other comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the financial position of the Group and the Bank as at 31 December 2017, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap. 113").

Basis for opinion

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

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Key audit matters

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

Impairment of loans and advances to customers	
Refer to note 17 to the financial statements	
The key audit matter	How the matter was addressed in our audit
<p>Impairment of loans and advances to customers is a key audit matter due to the significance of the balances, and complexity and subjectivity over estimating timing and amount of impairment.</p> <p>The estimation of the impairment loss allowance on an individual basis requires the Bank to make judgments to determine whether there is objective evidence of impairment and to make assumptions about the financial condition of the borrowers and expected future cash flows.</p> <p>The estimation of the impairment loss allowance on a collective assessment basis, relates to individually non-significant loans and losses incurred but not yet identified (IBNR loss allowance) on other loans. The audit matters include accuracy of input and appropriateness of methodology used.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing and testing the design and operating effectiveness of the controls over the Bank’s loan impairment process– for example: <ul style="list-style-type: none"> ▪ controls over the completeness and accuracy of data input into provisioning tools for individual impairment testing; ▪ IT controls including access, segregation of duties and data management, for the principal underlying IT system generating impairment allowance data, ▪ the management review process over the calculations and assessment of the relevant impairment loss allowance; • for individually significant loans: <ul style="list-style-type: none"> ▪ assessing the appropriateness of individually significant loans impairment methodology; ▪ performing credit assessment on a sample of loans assessing the appropriateness of impairment loss allowance and reasonableness of the amount of estimated recoverable cash flows, including realisable value of collateral; this work involved assessing the work performed by external experts used by the Bank to value the collateral and assessing the estimates of future cash flows. • for impairment loss allowance on a collective assessment basis: <ul style="list-style-type: none"> ▪ assessing the appropriateness of the impairment calculation methodology; ▪ assessing whether the modelling assumptions used considered the relevant risks and were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the borrowers; ▪ using our IT specialists to test the accuracy of key inputs into the models; ▪ using our credit modeling internal specialists to re-perform the calculations using our in-house challenger model; and • assessing whether disclosures in the financial statements appropriately reflect the Bank’s exposure to credit risk.

Estimate of the impact of IFRS 9	
Refer to note 2.3 to the financial statements	
The key audit matter	How the matter was addressed in our audit
<p>The Group is adopting IFRS 9 <i>Financial Instruments</i> from 1 January 2018 and disclosed an estimate of the financial impact of adoption of IFRS 9 in accordance with IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, as set out in note 2.3.</p> <p>IFRS 9 is a new and complex accounting standard which requires management judgement and interpretation in the implementation of the relevant requirements. These judgements have been key in the development of new models to estimate expected credit losses (ECLs) on loans measured at amortised cost.</p>	<p>Our audit procedures in this area included, among others:</p> <ul style="list-style-type: none"> • assessing the appropriateness of key classification and measurement decisions, including business model assessments and solely payment of principal and interest (“SPPI”) outcomes; • testing the Bank’s business model assessment for its portfolios and assessment of the SPPI criterion for a sample of financial assets; • assessing and challenging the appropriateness of the methodology, key technical decisions, judgements, assumptions and framework designed and implemented by the Bank in determining the ECL staging assessment and estimate; • evaluating the appropriateness of key macroeconomic variables and assessing the forward economic guidance and generation of multiple economic scenarios, used in determining the ECL estimate; • involving our credit risk modelling specialists in assessing: <ul style="list-style-type: none"> ▪ the appropriateness of credit risk modelling decisions of the Bank when developing the ECL calculation parameters; ▪ the incorporation of the impact of key macroeconomic variables in the Probability of Default (“PD”) and Loss Given Default Models (“LGD”) parameters used in determining the ECL estimate; • re-performing credit procedures as follows: <ul style="list-style-type: none"> ▪ for individually assessed loans: <ul style="list-style-type: none"> – performing credit assessment of a sample of loans to evaluate whether their staging assessment was appropriate and assess the reasonableness of their ECL allowance; ▪ for loans assessed on a collective basis: <ul style="list-style-type: none"> – recalculating the PD and LGD parameters used as inputs to ECL models on a sample basis; – testing the application of the Bank’s staging methodology; and – involving our own credit risk modelling specialists to develop a challenger model to recalculate the Bank’s overall ECL estimate; • assessing whether the disclosure in note 2.3 to the financial statements complies with the requirements in IAS 8 and is consistent with the status and scope of the Group’s IFRS 9 transition project.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended 31 December 2017, but does not include the consolidated and separate financial statements and our auditors' report thereon.

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

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

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

Responsibilities of the Board of Directors for the consolidated and separate financial statements

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

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

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

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

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

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

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

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

We also provide the Board of Directors 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 the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

Report on other regulatory and legal requirements

Other regulatory requirements

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

Date of our appointment and period of engagement

We were first appointed auditors of the Group by the General Meeting of the Bank's members on 14 May 1975. Our appointment has been renewed annually by shareholder resolution. Our total uninterrupted period of engagement is 44 years covering the periods ended 31 December 1974 to 31 December 2017.

Consistency of the additional report to the Audit Committee

Our audit opinion is consistent with the additional report presented to the Audit Committee dated 23 March 2018.

Provision of non-audit services ("NAS")

We have not provided any prohibited NAS referred to in Article 5 of EU Regulation 537/2014 as applied by Section 72 of the Auditors Law of 2017, L.53(I)2017, as amended from time to time ("Law L53(I)/2017").

Other legal requirements

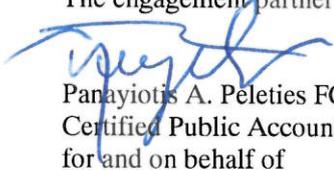
Pursuant to the additional requirements of law L.53 (I) 2017, and based on the work undertaken in the course of our audit, we report the following:

- In our opinion, the Management Report, the preparation of which is the responsibility of the Board of Directors, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and the information given is consistent with the consolidated and separate financial statements.
- In the light of the knowledge and understanding of the business and the Group's environment obtained in the course of the audit, we have not identified material misstatements in the Management Report.
- In our opinion, the information included in the Corporate Governance Report in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, has been prepared in accordance with the requirements of the Companies Law, Cap. 113, and is consistent with the financial statements.
- In our opinion, the Corporate Governance Report includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113.

Other matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Section 69 of Law 53(I)/2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

The engagement partner on the audit resulting in this independent auditors' report is Panayiotis A. Peleties.



Panayiotis A. Peleties FCA
Certified Public Accountant and Registered Auditor
for and on behalf of

KPMG Limited
Certified Public Accountants and Registered Auditors
14 Esperidon Street
1087 Nicosia
Cyprus

29 March 2018

HELLENIC BANK GROUP
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

		2017	2016
	Note	€'000	€'000
Interest income	4	165.876	185.236
Interest expense	5	(34.698)	(37.744)
Net interest income		<u>131.178</u>	<u>147.492</u>
Fee and commission income	6	50.156	56.640
Fee and commission expense	7	(4.868)	(4.648)
Net fee and commission income		<u>45.288</u>	<u>51.992</u>
Net gains on disposal and revaluation of foreign currencies and financial instruments	8	12.413	27.435
Other income	9	45.584	20.763
Total net income		<u>234.463</u>	<u>247.682</u>
Staff costs	10	(86.924)	(82.006)
Depreciation and amortisation	23, 24	(8.116)	(6.101)
Administrative and other expenses	11	(105.840)	(56.375)
Total expenses		<u>(200.880)</u>	<u>(144.482)</u>
Profit from ordinary operations before impairment losses and provisions to cover credit risk		33.583	103.200
Impairment losses and provisions to cover credit risk	12	(82.910)	(115.233)
Loss before share of results of associate company		(49.327)	(12.033)
Share of results of associate company net of taxation	22	789	-
Loss before taxation		(48.538)	(12.033)
Taxation	13	3.493	(50.628)
Loss for the year		<u>(45.045)</u>	<u>(62.661)</u>
(Loss)/profit attributable to:			
Shareholders of the parent company		(45.658)	(63.477)
Non-controlling interests		613	816
Loss for the year		<u>(45.045)</u>	<u>(62.661)</u>
Basic and diluted loss per share (€cent)	14	<u>(23,00)</u>	<u>(31,99)</u>

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	€'000	€'000
Loss for the year	<u>(45.045)</u>	<u>(62.661)</u>
Other comprehensive income/(expenses)		
Items that will not be reclassified in the income statement		
Surplus on revaluation of land and buildings	33 8.731	-
Taxation relating to components of other comprehensive income	13 <u>(236)</u>	<u>(12)</u>
	<u>8.495</u>	<u>(12)</u>
Items that are or may be reclassified subsequently in the income statement		
Surplus on revaluation of investments in equity and debt securities available for sale	32.977	490
Transfer to the income statement on disposal of investments in equity available for sale	33 -	(12.381)
Amortisation of revaluation of reclassified debt securities available for sale	33 <u>(74)</u>	<u>(733)</u>
	<u>32.903</u>	<u>(12.624)</u>
Other comprehensive income/(expenses) for the year net of taxation	<u>41.398</u>	<u>(12.636)</u>
Total comprehensive expenses for the year	<u>(3.647)</u>	<u>(75.297)</u>
Total comprehensive (expenses)/income for the year attributable to:		
Shareholders of the parent company	(4.254)	(76.133)
Non-controlling interests	607	836
	<u>(3.647)</u>	<u>(75.297)</u>

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Note	2017 €'000	2016 €'000
Assets			
Cash and balances with Central Banks	15	2.293.754	2.083.444
Placements with other banks	16	348.176	548.902
Loans and advances to customers	17	2.766.738	2.926.033
Debt securities	18	1.018.902	1.149.132
Equity securities & Collective investment units	20	30.037	16.008
Investment in associate company	22	7.600	-
Property, plant and equipment	23	102.541	99.648
Intangible assets	24	34.254	26.526
Tax receivable		553	127
Deferred tax asset	25	12.286	8.465
Other assets	26	231.796	179.319
Total assets		6.846.637	7.037.604
Liabilities			
Deposits by banks	27	176.355	100.652
Customer deposits and other customer accounts	28	5.808.125	6.111.088
Tax payable		5.263	5.422
Deferred tax liability	29	2.498	1.980
Other liabilities	30	152.433	111.924
		6.144.674	6.331.066
Loan capital	31	139.667	139.667
Equity			
Share capital	32	99.237	99.237
Reserves		459.648	464.252
Equity attributable to shareholders of the parent company		558.885	563.489
Non-controlling interests		3.411	3.382
Total equity		562.296	566.871
Total liabilities and equity		6.846.637	7.037.604
Contingent liabilities and commitments	34	958.268	854.887

The Consolidated Financial Statements have been approved by the Board of Directors on 29 March 2018.

			
Dr Evripides A. Polykarpou Chairman of the Board of Directors	Ioannis A. Matsis Chief Executive Officer	Lambros Papadopoulos Chairman of the Audit Committee of the Board	Lars Kramer Chief Financial Officer

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to shareholders of the parent company						Total €'000	Non- controlling interests €'000	Total €'000
	Share capital (Note 32) €'000	Reduction of share capital Reserve €'000	Share premium reserve €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 33) €'000			
Balance 1 January 2017	99.237	260.269	515.609	(349.168)	33	37.509	563.489	3.382	566.871
Total comprehensive (expenses)/income for the year net of taxation									
(Loss)/profit for the year	-	-	-	(45.658)	-	-	(45.658)	613	(45.045)
Other comprehensive income/(expenses)	-	-	-	-	-	41.404	41.404	(6)	41.398
Transfer due to disposal of immovable property	-	-	-	429	-	(429)	-	-	-
Transfer of excess depreciation on revaluation surplus	-	-	-	168	-	(168)	-	-	-
	-	-	-	(45.061)	-	40.807	(4.254)	607	(3.647)
Transactions with shareholders									
Contributions and distributions									
Dividend by subsidiary	-	-	-	-	-	-	-	(578)	(578)
Defence on deemed dividend distribution	-	-	-	(350)	-	-	(350)	-	(350)
	-	-	-	(350)	-	-	(350)	(578)	(928)
Balance 31 December 2017	99.237	260.269	515.609	(394.579)	33	78.316	558.885	3.411	562.296

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to shareholders of the parent company						Total €'000	Non- controlling interests €'000	Total €'000
	Share capital (Note 32) €'000	Reduction of share capital Reserve €'000	Share premium reserve €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 33) €'000			
Balance 1 January 2016	99.217	260.269	515.592	(286.013)	39	50.493	639.597	3.199	642.796
Total comprehensive (expenses)/income for the year net of taxation									
(Loss)/profit for the year	-	-	-	(63.477)	-	-	(63.477)	816	(62.661)
Other comprehensive (expenses)/income	-	-	-	-	-	(12.656)	(12.656)	20	(12.636)
Transfer due to disposal of immovable property	-	-	-	11	-	(11)	-	-	-
Transfer of excess depreciation on revaluation surplus	-	-	-	317	-	(317)	-	-	-
	-	-	-	(63.149)	-	(12.984)	(76.133)	836	(75.297)
Loss from the dissolution of a subsidiary company	-	-	-	(6)	(6)	-	(12)	-	(12)
Transactions with shareholders									
Contributions and distributions									
Issue of shares to CEO as part of his variable remuneration package	20	-	17	-	-	-	37	-	37
Dividends by subsidiary	-	-	-	-	-	-	-	(653)	(653)
	20	-	17	-	-	-	37	(653)	(616)
Balance 31 December 2016	99.237	260.269	515.609	(349.168)	33	37.509	563.489	3.382	566.871

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

		2017	2016
	Note	€'000	€'000
Cash flow from operating activities			
Group loss for the year		(45.045)	(62.661)
Depreciation of property, plant and equipment and amortisation of intangible assets	23, 24	8.116	6.101
Gain on disposal of property, plant and equipment		(84)	(26)
Gain on disposal and revaluation of investments in debt and equity securities		(1.469)	(4.862)
Reversal of impairment loss on debt securities and on equity securities	8	-	(74)
Impairment losses on owner-occupied property	11	1.528	-
Gain on disposal of equity securities held for sale		-	(11.067)
Income from investments in debt and equity securities		(31.597)	(30.732)
Interest expense on loan capital	5	242	522
Impairment of goodwill	24	18	106
Impairment losses and provisions to cover credit risk	12	82.910	115.233
Gain on disposal of the operations of the Bank's Arrears Management Division	22	(19.012)	-
Share of results from associate	22	(789)	-
Issue of shares for a non-cash consideration	32	-	37
Taxation	13	(3.493)	50.628
Cash (used in)/generated from operations before working capital changes		(8.675)	63.205
Decrease/(increase) in loans and advances to customers and other assets		32.377	(17.813)
Decrease in customer deposits and other customer accounts and other liabilities		(259.234)	(22.993)
Decrease in placements with other banks		11.634	2.072
(Increase)/decrease in cash and balances with Central Banks		(39.829)	10.349
Increase in deposits by banks		75.703	23.714
Decrease in amounts due to Central Banks		-	(236.373)
Net cash used in operating activities before taxation		(188.024)	(177.839)
Tax paid		(631)	(424)
Net cash used in operating activities		(188.655)	(178.263)
Cash flow from investing activities			
Net proceeds from the sale of Non-Performing Loan and Real Estate Management Business	22	12.748	-
Acquisition of investment in associate company	22	(6.811)	-
Income from investments in debt and equity securities		31.597	30.732
Net (additions)/disposals/maturity of investments in debt and equity securities		150.579	(103.274)
Additions of property, plant and equipment	23	(6.754)	(6.218)
Additions of intangible assets	24	(10.568)	(5.566)
Proceeds from disposal of equity securities held for sale		-	11.265
Proceeds from disposal of property, plant and equipment		422	27
Net cash from/(used in) investing activities		171.213	(73.034)
Cash flow from financing activities			
Repayment of loan capital		-	(41.801)
Dividend paid by subsidiary company		(578)	(653)
Defence on deemed dividend distribution		(349)	-
Interest paid on loan capital	5	(242)	(522)
Net cash used in financing activities		(1.169)	(42.976)
Net decrease in cash and cash equivalents		(18.611)	(294.273)
Cash and cash equivalents at the beginning of the year		2.493.682	2.787.955
Cash and cash equivalents at the end of the year	36	2.475.071	2.493.682

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 €'000	2016 €'000
Interest income	4	165.775	185.103
Interest expense	5	(34.800)	(38.021)
Net interest income		<u>130.975</u>	<u>147.082</u>
Fee and commission income	6	50.460	55.059
Fee and commission expense	7	(2.395)	(2.365)
Net fee and commission income		<u>48.065</u>	<u>52.694</u>
Net gains on disposal and revaluation of foreign currencies and financial instruments	8	12.462	27.437
Other income	9	29.955	10.079
Total net income		<u>221.457</u>	<u>237.292</u>
Staff costs	10	(81.571)	(76.555)
Depreciation and amortisation	23, 24	(7.865)	(5.946)
Administrative and other expenses	11	(99.849)	(53.907)
Total expenses		<u>(189.285)</u>	<u>(136.408)</u>
Profit from ordinary operations before impairment losses and provisions to cover credit risk		32.172	100.884
Impairment losses and provisions to cover credit risk	12	(82.910)	(115.233)
Loss before taxation		(50.738)	(14.349)
Taxation	13	3.493	(50.140)
Loss for the year		<u>(47.245)</u>	<u>(64.489)</u>
Basic and diluted loss per share (€cent)	14	<u>(23.80)</u>	<u>(32.50)</u>

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
 FOR THE YEAR ENDED 31 DECEMBER 2017

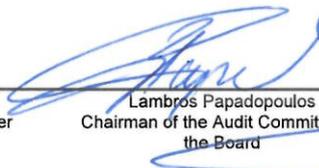
	2017	2016
Note	€'000	€'000
Loss for the year	(47.245)	(64.489)
Other comprehensive income/(expenses)		
Items that will not be reclassified in the income statement		
Surplus on revaluation of land and buildings	33 8.903	-
Taxation relating to components of other comprehensive income	13 (226)	(9)
	<u>8.677</u>	<u>(9)</u>
Items that are or may be reclassified subsequently in the income statement		
Surplus on revaluation of available for sale equity and debt securities	33 32.936	411
Transfer to the income statement on disposal of investments in equity available for sale	33 -	(12.381)
Amortisation of revaluation of reclassified debt securities available for sale	33 (74)	(733)
	<u>32.862</u>	<u>(12.703)</u>
Other comprehensive income/(expenses) for the year net of taxation	<u>41.539</u>	<u>(12.712)</u>
Total comprehensive expenses for the year	<u>(5.706)</u>	<u>(77.201)</u>

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2017

	Note	2017 €'000	2016 €'000
Assets			
Cash and balances with Central Banks	15	2.293.753	2.083.443
Placements with other banks	16	336.272	537.259
Loans and advances to customers	17	2.766.738	2.926.033
Debt securities	18	1.018.090	1.142.704
Equity securities & Collective investment units	20	9.231	8.503
Investments in subsidiary companies	21	183.551	91.621
Amounts due from subsidiary companies		-	1.007
Investment in associate company	22	6.811	-
Property, plant and equipment	23	95.991	93.490
Intangible assets	24	18.295	11.663
Tax receivable		65	60
Deferred tax asset	25	12.286	8.464
Other assets	26	52.368	90.178
Total assets		6.793.451	6.994.425
Liabilities			
Deposits by banks	27	176.355	100.652
Customer deposits and other customer accounts	28	5.808.125	6.111.088
Amounts due to subsidiary companies		23.773	25.362
Tax payable		5.120	5.120
Deferred tax liability	29	2.351	1.800
Other liabilities	30	92.133	58.753
		6.107.857	6.302.775
Loan capital	31	139.667	139.667
Equity			
Share capital	32	99.237	99.237
Reserves		446.690	452.746
Total equity		545.927	551.983
Total liabilities and equity		6.793.451	6.994.425
Contingent liabilities and commitments	34	958.368	859.472

The Financial Statements have been approved by the Board of Directors on 29 March 2018.

			
Dr Evripides A. Polykarpou Chairman of the Board of Directors	Ioannis A. Matsis Chief Executive Officer	Lambros Papadopoulos Chairman of the Audit Committee of the Board	Lars Kramer Chief Financial Officer

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital (Note 32) €'000	Reduction of share capital Reserve €'000	Share premium reserve €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 33) €'000	Total €'000
Balance 1 January 2017	99.237	260.269	515.476	(357.668)	67	34.602	551.983
Total comprehensive (expenses)/income for the year net of taxation							
Loss for the year	-	-	-	(47.245)	-	-	(47.245)
Other comprehensive income	-	-	-	-	-	41.539	41.539
Transfer due to disposal of immovable property	-	-	-	429	-	(429)	-
Transfer of excess depreciation on revaluation surplus	-	-	-	168	-	(168)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46.648)</u>	<u>-</u>	<u>40.942</u>	<u>(5.706)</u>
Transactions with shareholders							
Contributions and distributions							
Defence on deemed dividend distribution	-	-	-	(350)	-	-	(350)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>(350)</u>	<u>-</u>	<u>-</u>	<u>(350)</u>
Balance 31 December 2017	<u>99.237</u>	<u>260.269</u>	<u>515.476</u>	<u>(404.666)</u>	<u>67</u>	<u>75.544</u>	<u>545.927</u>

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
 FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital (Note 32) €'000	Reduction of share capital Reserve €'000	Share premium reserve €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 33) €'000	Total €'000
Balance 1 January 2016	99.217	260.269	515.459	(293.482)	67	47.617	629.147
Total comprehensive expenses for the year net of taxation							
Loss for the year	-	-	-	(64.489)	-	-	(64.489)
Other comprehensive expenses	-	-	-	-	-	(12.712)	(12.712)
Transfer due to disposal of immovable property	-	-	-	11	-	(11)	-
Transfer of excess depreciation on revaluation surplus	-	-	-	292	-	(292)	-
	-	-	-	(64.186)	-	(13.015)	(77.201)
Transactions with shareholders							
Contributions and distributions							
Issue of shares to CEO as part of his variable remuneration package	20	-	17	-	-	-	37
	20	-	17	-	-	-	37
Balance 31 December 2016	99.237	260.269	515.476	(357.668)	67	34.602	551.983

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

		2017	2016
		€'000	€'000
	Note		
Cash flow from operating activities			
Bank loss for the year		(47.245)	(64.489)
Depreciation of property, plant and equipment and amortisation of intangible assets	23, 24	7.865	5.946
Gain on disposal of property, plant and equipment		(77)	(26)
Gain on disposal and revaluation of investments in debt and equity securities		(1.518)	(4.862)
Reversal of impairment loss on debt securities and on equity securities	8	-	(74)
Impairment losses on owner-occupied property	11	1.528	-
Gain on disposal of equity securities held for sale		-	(11.067)
Income from investments in debt and equity securities		(34.831)	(34.895)
Interest expense on loan capital	5	242	522
Impairment losses and provisions to cover credit risk	12	82.910	115.233
Gain on disposal of the operations of the Bank's Arrears Management Division	22	(19.012)	-
Loss from dissolution of subsidiary		-	18
Issue of shares for non-cash consideration	32	-	37
Taxation	13	(3.493)	50.140
Cash (used in)/generated from operations before working capital changes		(13.631)	56.483
Decrease in loans and advances to customers and other assets		130.391	51.976
Decrease in customer deposits and other customer accounts and other liabilities		(266.364)	(24.422)
Decrease in placements with other banks		13.557	1.942
(Increase)/decrease in cash and balances with Central Banks		(39.830)	10.349
Increase in deposits by banks		75.703	23.714
Decrease/(increase) in amounts due from subsidiary companies		1.007	(917)
Decrease in amounts due to Central Banks		-	(236.373)
Decrease in amounts due to subsidiary companies		(1.589)	(7.892)
Net cash used in operating activities before taxation		(100.756)	(125.140)
Tax paid		(9)	(58)
Net cash used in operating activities		(100.765)	(125.198)
Cash flow from investing activities			
Increase in investment in subsidiary companies		(99.064)	(68.664)
Net proceeds from the sale of Non-Performing Loan and Real Estate Management Business	22	12.748	-
Acquisition of investment in associate company	22	(6.811)	-
Income from investments in debt and equity securities		34.831	34.895
Net (additions)/disposals/maturity of investments in debt and equity securities		158.266	(102.145)
Additions of property, plant and equipment	23	(6.578)	(6.186)
Additions of intangible assets	24	(9.398)	(5.404)
Proceeds from disposal of equity securities held for sale		-	11.265
Proceeds from disposal of property, plant and equipment		412	27
Net cash from/(used in) investing activities		84.406	(136.212)
Cash flow from financing activities			
Repayment of loan capital		-	(41.801)
Defence on deemed dividend distribution		(349)	-
Interest paid on loan capital	5	(242)	(522)
Net cash used in financing activities		(591)	(42.323)
Net decrease in cash and cash equivalents		(16.950)	(303.733)
Cash and cash equivalents at the beginning of the year		2.482.051	2.785.784
Cash and cash equivalents at the end of the year	36	2.465.101	2.482.051

The notes on pages 28 to 140 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Consolidated Financial Statements and the Bank's separate Financial Statements (hereafter collectively refer to as "Financial Statements") and have been applied consistently by all companies of the Group.

2.1. Basis of preparation

(a) Going concern principle

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

(b) Statement of compliance

The Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap.113, the Cyprus Stock Exchange and the Cyprus Securities and Exchange Commission Laws and Regulations.

(c) Basis of measurement

The Financial Statements have been prepared on the historical cost basis, except from derivatives, financial assets at fair value through profit or loss, available for sale, properties for own use and investment properties which are measured at fair value. Stock of properties are measured at the lower of cost and net realisable value.

(d) Functional and presentation currency

The Financial Statements are presented in Euro (€), which is the functional currency of the Bank. All figures have been rounded to the nearest thousand, except when otherwise indicated.

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

As from 1 January 2017, the Group adopted all the changes to International Financial Reporting Standards (IFRSs) as adopted by the EU which are relevant to its operations. These adoptions did not have a material effect on the Financial Statements of the Group.

2.3. Standards and interpretations that are not yet effective

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board (IASB) but are effective for annual periods beginning after 1 January 2017. Those which may be relevant to the Group are set out below. The Group does not intend to adopt these standards prior to their effective date.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Standards and Interpretations adopted by the EU

IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2018)

In July 2014, the IASB issued a complete and final version of IFRS 9 "Financial Instruments", which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Group decided not to early adopt IFRS 9.

IFRS 9 introduces a new impairment model based on expected credit losses (ECL) and sets out the requirements and guidance on the classification and measurement of financial assets and financial liabilities, on the impairment of financial assets and on hedge accounting. It also introduces new requirements to address the so-called "own credit" risk issue. As a result of IFRS 9, consequential, significant amendments have been made to IFRS 7 "Financial Instruments: Disclosures", requiring additional qualitative and quantitative disclosures to be applied at the same time as IFRS 9.

Based on assessments undertaken to date, the adoption of IFRS 9 is expected to result in a net reduction to the opening balance of the equity of the Group at 1 January 2018 of €33,9 million (Bank: €33,8 million), (net of taxes), representing:

- An increase of approximately €1,9 million related to classification and measurement requirements, other than impairment;
- A reduction of approximately €38,6 million related to the new impairment requirements, and
- An increase of approximately €2,8 million related to deferred tax impacts.

The actual impact of adopting IFRS 9 on 1 January may change until the Group finalises testing and assessment of upgraded systems and implementation of internal control processes which is expected until the Group finalises its first Financial Statements that include the date of initial application.

Classification and Measurement

Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which the assets are managed and their cash flow characteristics.

Under IFRS 9, the Bank classifies debt instruments as subsequently measured at (a) amortised cost, (b) fair value through other comprehensive income (FVOCI) or (c) fair value through profit or loss (FVTPL) on the basis of both the Bank's business model for managing financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). IFRS 9 eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A financial asset is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial asset; and

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Its contractual terms give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

– *Business model assessment*

Debt instruments that are held within a business model whose objective is to hold assets to collect contractual cash flows (the 'hold to collect' business model) and their contractual terms meet the SPPI criterion will be classified at amortised cost. Those debt instruments held within a business model whose objective is achieved by both collecting contractual cash flows and selling the asset (the 'hold to collect and sell' business model) and their contractual terms meet the SPPI criterion will be classified at FVOCI. Financial assets with contractual terms that do not meet the SPPI criterion are classified as FVTPL.

The Group assessed the objective of the business model in which debt instruments are held at a portfolio level because this best reflects the way in which the business is managed and information is provided to management. The assessment reflected:

- the stated policies and objectives for the portfolio and the operation of those policies in practice,
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's management,
- the risks that affect the performance of the business model and, in particular the way in which those risks are managed,
- the frequency, volume and timing of sales in prior periods, the reason for such sales and expectations about future sales activity, which should be considered as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are generated.

Financial assets that are held for trading and those that are managed and whose performance is evaluated on a fair value basis will be measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

– *Assessment whether contractual cash flows are solely payments of principal and interest*

The Group assessed whether contractual cash flows represent, on specified dates, solely payments of principal and interest (SPPI). 'Principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. In assessing whether the contractual cash flows are SPPI, the Group considered the contractual terms of the instrument at product level.

The Group has estimated that, on adoption of the standard on 1 January 2018, the impact of the changes related to the classification and measurement of financial assets held as at 1 January 2018 (excluding impairment) is approximately €1,9 million and is analysed as follows:

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

	Current Classification under IAS 39	New classification under IFRS 9	The Group		The Bank	
			Current Carrying amount IAS 39 €'000	New Carrying amount IFRS 9 €'000	Current Carrying amount IAS 39 €'000	New Carrying amount IFRS 9 €'000
Cash and balances with Central Banks	Loans and Receivables	Amortised cost	2.293.754	2.293.754	2.293.753	2.293.753
Placements with other banks	Loans and Receivables	Amortised cost	348.176	348.176	336.273	336.273
Loans and advances to customers	Loans and Receivables	Amortised cost	2.766.738	2.766.738	2.766.738	2.766.738
Debt securities	Held to maturity	Amortised cost	107.457	107.457	107.457	107.457
Debt securities	Held to maturity	FVOCI	38.942	40.678	38.942	40.678
Debt securities	Loans and Receivables	Amortised cost	193.260	193.260	193.260	193.260
Debt securities	Available for sale	FVOCI	678.431	678.431	678.431	678.431
Debt securities	Available for sale	Amortised cost	812	724	-	-
Equity securities	Trading (FVTPL)	FVTPL	450	450	450	450
Equity securities	Available for sale	FVOCI	6.250	6.500	6.250	6.500
Equity securities & Collective investment units	Available for sale	FVTPL	23.337	23.337	2.531	2.531
Derivatives	Trading (FVTPL)	FVTPL				
			229	229	229	229
			6.457.836	6.459.734	6.424.314	6.426.300

Financial Liabilities

For financial liabilities, IFRS 9 retains most of the pre-existing requirements. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income. The Group has estimated that there will be no impact on the opening balance of the equity of the Group at 1 January 2018 from the adoption of the standard.

Impairment Model

IFRS 9 replaces the existing "incurred loss" impairment approach with a forward-looking 'Expected Credit Loss' (ECL) model, which would result in earlier recognition of credit losses compared to IAS 39.

The IFRS 9 impairment model applies to all financial assets that are not measured at FVTPL:

- financial assets that are debt instruments (i.e. at amortised cost and debt instruments measured at fair value through other comprehensive income),
- lease receivables,
- loan commitments and financial guarantees.

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

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

– *Measurement of Expected Credit Losses*

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12-month ECLs or lifetime ECLs. At initial recognition, an impairment allowance is required for expected credit losses ('ECL') resulting from default events that are possible within the next 12 months ('12-month ECL'). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). The ECL model has three stages which are based on the change in the credit quality of assets since initial recognition:

- Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition
- Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit-impaired.
- Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit-impaired

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net (of loss allowance) carrying amount in Stage 3.

The Group will use three main components to measure expected credit losses:

- Probability of default (PD),
- Loss given default (LGD) and
- Exposure at default (EAD).

In line with IFRS 9 impairment requirements, forward looking information, including current conditions and projections of macroeconomic and other factors, are incorporated in a range of unbiased future economic scenarios for ECL purposes. The ECL estimate incorporates the expected impact of all reasonable and supportable forward-looking information, taking into consideration the macroeconomic factors. The Bank will incorporate three forward-looking macroeconomic scenarios in its ECL calculations process: a baseline scenario, an optimistic scenario and a pessimistic scenario. Probability weights will be attributed to each scenario, while most of the weight being placed on the baseline scenario. These scenarios will be reassessed biannually.

– *Definition of default*

IFRS 9 does not define default but requires the definition to be consistent with the definition of default used for internal credit risk management purposes. Under IFRS 9 default occurs when the borrower is unlikely to pay its credit obligations to the Group in full, and the borrower is more than 90 days past due on any material credit obligation to the Group. The Bank aligned Stage 3 classification with the European Banking Authority's (EBA) criteria for NPE classification.

– *Significant increase in credit risk*

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward-looking information.

The Bank aligned Stage 3 classification with the NPE classification consistent with the definition used for internal credit risk management purposes.

The Bank assesses significant deterioration in credit risk since origination and classifies as Stage 2 accounts that satisfy any of the below-mentioned criteria:

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Days in Arrears: Exposures with more than 30 days in arrears,
- Forbearance flag: A performing account with an active forbearance flag in line with the EBA definition,
- Accounts managed by recovery units (before default),
- A pooling effect is applied at a customer level which classifies as Stage 2 accounts not meeting the above criteria but fall under the same customer whose other accounts exhibit credit triggers such as those above,
- Behavioural Score: Retail and SME exposures with low behavioural score resulting from models developed by the Bank for predicting defaults/delinquencies.

Exposures that do not meet any of the above criteria, are classified as Stage 1.

For accounts that meet the criteria to be individually assessed for provisions the Bank reviews and validates the Stage classification using a combination of backward-looking, current and forward-looking indicators.

The most significant impact on the Group's Financial Statements from the implementation of IFRS 9 is expected to result from the new impairment requirements. Impairment losses are expected to increase and become more volatile for financial instruments in the scope of the IFRS 9 impairment model.

The Group has estimated that, on the adoption of IFRS 9 at 1 January 2018, the impact of the increase in loss allowances (before tax) will be approximately €38,5 million.

Derecognition and contract modification

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery. Such restructuring activities include extended payment term arrangements, change in interest rates, payment holidays, payment forgiveness or exchange of debt instruments.

A forbore exposure may be derecognised and the renegotiated loan recognised as a new loan at fair value when the new terms are substantially different to the original terms (refer to Note 2.17 and Note 17 of the Financial Statements). The renegotiation date is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the "new" financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences between the gross carrying amount of the original terms and the fair value at initial recognition of the "new" loan are recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originate credit-impaired financial assets) and is compared to the gross carrying amount of the original loan. The Bank expects the impact from adopting these new requirements not to be significant.

Regulatory capital position

On 12 December 2017, a new Regulation (EU) 2017/2395 of the European Parliament and of the Council was issued, amending Regulation (EU) No 575/2013, as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

According to the Regulation, the Bank has the option to add back in its CET1 capital a portion of the increased expected credit loss provisions over a transitional period or recognise the full impact of IFRS 9 on capital and leverage ratios from 1 January 2018. The transitional period has a maximum duration of five years and starts in 2018. The portion of expected credit loss provisions that can be included in CET 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.

The amount subject to transitional provisions which will be added back to the CET1 capital will be derived from the following:

- Increased credit loss provisions from the implementation of the IFRS 9 on 1 January 2018 compared to the credit loss provisions under IAS39 net of any tax impact.
- Additional credit loss provisions incurred after IFRS 9 implementation which rise unexpectedly due to a worsening macroeconomic outlook from non-credit impaired financial assets.

The Bank decided to adopt both above transitional arrangements and informed the competent authority accordingly. The impact on the Group's CET 1 ratio as at 1 January 2018 is manageable and well within the Group's capital plans. Under regulatory transitional arrangements, the Group expects to have a minor positive impact, while on a fully loaded basis is expected to be a reduction of approximately 100 basis points. The Group's Leverage ratio as at 1 January 2018 under transitional arrangements is expected not to be affected while on a fully loaded basis is expected to be reduced by approximately 50 basis points.

Transition

The Group, as permitted, will not restate comparatives for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in reserves as at 1 January 2018 as follows:

The Group	Revaluation reserve	Revenue reserve
	€'000	€'000
Statement of changes in Equity		
Balance at 1 January 2018	78.316	(394.579)
Adjustments from adoption of IFRS 9		
Debt securities reclassified to/from amortised cost	1.648	-
Equity securities measured at FVOCI	250	-
Adjustment from new impairment requirements		
Increase of loss allowance	740	(39.311)
Deferred tax impact	-	2.748
Restated balance as at 1 January 2018	80.954	(431.142)

Annual Improvements to IFRSs 2014-2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (IFRS 1 and IAS 28))

The annual improvements impact three standards. The amendments to IFRS 1 remove the outdated exemptions for first-time adopters of IFRSs. The amendments to IAS 28 clarify that the election to measure at fair value through profit or loss an investment in associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The adoption of these standards is not expected to have a material effect on the Financial Statements of the Group.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018)

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers" which is effective for annual periods beginning on or after 1 January 2018. In April 2016, the IASB issued clarifying amendments to IFRS 15 which provide additional application guidance but did not change the underlying principles of the standard. The standard was endorsed by the EU in September 2016. IFRS 15, which replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts", provides a principles-based approach for revenue recognition, and introduces the concept of recognising revenue for performance obligations as they are satisfied. The recognition of such revenue is in accordance with five steps to: 1) identifying the contract with the customer; 2) identifying each of the performance obligations included in the contract; 3) determining the transaction price; 4) allocating the transaction price to the performance obligations in the contract; and 5) recognising revenue as each performance obligation is satisfied. The Group has elected the cumulative effect transition method with a transition adjustment calculated as of 1 January 2018 recognised in retained earnings without restating comparative periods. The adoption of this Standard is not expected to have a material effect on the Group.

IFRS 4 (Amendments) "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts" (effective for annual periods beginning on or after 1 January 2018)

The amendments intend to address concerns about the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard (expected as IFRS 17). The amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4: a) an option permitting entities to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets (overlay approach) or b) an optional temporary exemption from applying IFRS 9 whose predominant activity is issuing contracts within the scope of IFRS 4 (deferral approach). The adoption of this standard is not expected to have a material effect on the Financial Statements of the Group.

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019)

In January 2016, the IASB issued IFRS 16 "Leases", which will replace existing leases guidance including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases- Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional recognition exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard i.e. lessors continue to classify leases as finance or operating leases. The standard was endorsed by the EU in November 2017. The Group is currently evaluating the expected impact of adopting the Standard on its Financial Statements.

IFRS 2 (Amendments) "Classification and Measurement of Share-based Payment Transactions" (effective for annual periods beginning on or after 1 January 2018)

The amendments cover three main accounting areas: a) the effects of vesting conditions on the measurement of cash-settled share-based payments; b) classification of a share-based payment transaction settled net of tax withholdings; and c) accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The new requirements could affect the classification and/or measurements of these arrangements and potentially the timing and amount of expense recognised for new and outstanding awards. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 40 (Amendments) “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018)

The amendments clarify the requirements on transfers to, or from, investment property. A transfer is made when, and only when, there is an actual change in use i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer. In addition, the amendments clarify that the revised examples of evidence of a change in use included in the amended version of IAS 40 are not exhaustive. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

IFRS 9 (Amendments) “Prepayment Features with Negative Compensation” (effective for annual periods beginning on or after 1 January 2019)

In October 2017, the IASB issued “Prepayment Features with Negative Compensation (Amendments to IFRS 9)”. This amendment allows financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

(ii) Standards and Interpretations not adopted by the European Union

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018)

The interpretation clarifies how to determine the ‘date of transaction’ for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (e.g. a non-refundable deposit or deferred revenue). IFRIC 22 specifies that the transaction date is the date on which the entity initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation is not expected to have an impact on the Group's Financial Statements.

IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019)

IFRIC 23 clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity's tax treatment. The Group is currently evaluating the expected impact of adopting the interpretation on its Financial Statements.

IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021)

In May 2017, the IASB issued IFRS 17 "Insurance Contracts", a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective IFRS 17 will replace IFRS 4 "Insurance Contract" that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. Life, Non-Life, direct insurance and reinsurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The Group is currently evaluating the expected impact of adopting this standard on its Financial Statements.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 28 (Amendments) “Long-term Interest in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2019)

In October 2017, the IASB issued "Long-term interests in Associates and Joint Ventures" (Amendments to IAS 28). The amendments clarify that an entity applies IFRS 9 "Financial Instruments" to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019)

In December 2017, the IASB published Annual Improvements to IFRSs 2015–2017 Cycle, containing the following amendments to IFRSs:

- IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements". The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value. The amendments to IFRS 11 clarify that when an entity maintains (or obtains) joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: the amendments clarify that all income tax consequences of dividends (i.e. distribution of profits) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
- IAS 23 Borrowing Costs: the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

The Group is currently evaluating the expected impact of adopting these amendments on its Financial Statements.

IAS 19 (Amendments) “Plan Amendment, Curtailment or Settlement” (effective for annual periods beginning on or after 1 January 2019)

In February 2018, the IASB issued amendments to the guidance in IAS 19, 'Employee Benefits', in connection with accounting for planned amendments, curtailments and settlements. The amendments are not expected to have an impact on the Group's Financial Statements.

2.4. Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Business combinations are accounted for by applying the acquisition method. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. Any goodwill which may arise is tested annually for impairment.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in the income statement. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interest relates to that portion of the income statement and net assets of a subsidiary, attributable to equity interests that are not owned directly or indirectly by the Group. The profits or losses attributable to non-controlling interest are disclosed on the face of the income statement as allocation of the income statement for the period/year. Non-controlling interest is presented on the face of the statement of financial position, within equity, separately from equity attributable to owners of the parent.

Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

Associates are entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for in the Consolidated Financial Statements using the equity method.

The Group promotes the formation of special purpose vehicles (SPVs) for the purpose of asset securitisation transactions so as to accomplish defined objectives. The Group consolidates these SPVs if the substance of its relationship with them indicates that it has control over them.

2.5. Investments in subsidiaries and associates

Investments in subsidiaries and associates are presented at cost in the Bank's statement of financial position less provision for impairment, where applicable.

2.6. Foreign currency

(a) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency at the exchange rate at the date when the fair value was determined. Foreign currency differences arising on retranslation are recognised in the income statement, except for differences arising on the translation of a financial liability designated as the hedging instrument in a hedge of the net investment in a foreign operation or in a qualifying cash flows hedge, which are recognised directly in equity.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into the Group's presentation currency (Euro) at exchange rates at the statement of financial position date. The income and expenses of foreign operations are translated into Euro using the average exchange rates for the year. Exchange differences arising on translation of foreign operations are recognised directly in the translation reserve within equity. When a foreign operation is disposed of, the cumulative amount of the exchange differences recognised in equity and relating to that foreign operation is reclassified to the income statement when the gain or loss on disposal is recognised.

2.7. Turnover

Group turnover includes interest income, fee and commission income, net gains or losses on disposal and revaluation of foreign currencies and financial instruments and other income.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

Interest income on impaired loans and advances continues to be recognised on the recoverable portion of impaired loans.

2.9. Fee and commission income and expense

Fee and commission income and expense is recognised in the income statement on an accruals basis, as the related services are performed.

2.10. Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

2.11. Income from hire purchase

Income from hire purchase recognised in the income statement is calculated in a systematic manner on the basis of instalments falling due, in order to produce a constant periodic rate of return on the net investment outstanding.

Hire purchase debtors are included in loans and advances to customers in the consolidated statement of financial position, net of unearned charges attributable to future instalments.

2.12. Investment property rental income

Rental income is recognised, in other income, on an accrual basis in accordance with the substance of the relevant agreements.

2.13. Profit/(loss) from the disposal of property held for sale

Profit/(loss) on disposal of property held for sale is recognised in the income statement in "Other income" when the buyer accepts delivery and the transfer of risks and rewards to the buyer is completed.

2.14. Employee retirement benefits

The Group participates in two different defined contribution retirement plans.

The terms of employment of the majority of Group employees are in accordance with the provisions of the Collective Agreement between the Cyprus Banks Employers Association and the Cyprus Union of Bank Employees under which a defined contributions Provident Fund for the Hellenic Bank Group staff was set up and since then operates in accordance with Cyprus legislation. In accordance with the Collective Agreement, as of 1 January 2012, employer's contributions to the Provident Fund amounted to 14% of the gross salary (basic salary plus cost of living allowance) of each employee. Following the conclusion on 17 March 2014 of an agreement amending the Collective Agreement, the employers' contributions to the Provident Fund, with effect from 1 January 2014, were fixed at 9% for the years 2014 and 2015, 9,5% for 2016 and 11,5% for 2017. Following the conclusion on 31 July 2017 of a new agreement amending the Collective Agreement, the employer's contributions to the Provident Fund for 2017 and 2018 were set at 9%.

A number of staff are employed on the basis of personalised employment contracts that are not in accordance with the terms of the Collective Agreement. These employees are members of a multi-employer defined contribution Provident Funds of their choice, to which the employer contributes 9% of each employee's gross salary.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Group obligations towards the employees' retirement benefits are limited to payment of the contributions to each Provident Fund. Employer's contributions due for payment are recognised as staff expense.

Prepaid contributions are recognised as an asset to the extent that cash will be refunded or future payments will be reduced.

2.15. Income tax

Income tax expense comprises of current and deferred tax. It is recognised in the income statement unless it relates to items recognised directly in equity or in the statement of comprehensive income.

Current taxation represents the amount of income tax payable on the taxable income of a tax period, using tax rates prevailing as at the date of the statement of financial position as well as any adjustments to tax payable in respect of previous years' results.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Statement of Financial Position and their tax base. Deferred tax asset is recognised only to the extent that future taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated at tax rates expected to be applicable in the period during which the asset will be utilised or the liability will be settled taking into consideration the tax rates and legislation enacted or substantially enacted at the reporting date.

Tax assets and liabilities are offset if they relate to taxes imposed by the same tax authority provided it allows such settlements, and provided the intention of the Group is to either settle the net amount or realise the asset and settle the obligation simultaneously.

2.16. Special Levy

According to the "Special Levy on Credit Institutions Law of 2011 to 2017", special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31 December of the previous year for the quarter ending on 31 March, on 31 March of the same year for the quarter ending on 30 June, on 30 June of the same year for the quarter ending on 30 September and on 30 September of the same year for the quarter ending on 31 December. Based on an amendment to the Law effective as from 6 October 2017, an amount corresponding to the annual contribution of each credit institution to the Resolution Fund or to the Single Resolution Fund as the case may be, is deducted from the balance of special levy payable, up to the maximum amount of special levy for the same year.

Based on an amendment to the Law, as from 1 January 2015, 35/60 of the funds received were deposited to the Recapitalisation Fund incorporated pursuant to the Law 190(I) 2015. As from 1 January 2018 and for every subsequent year, 35/60 of the special levy paid in accordance with the Law, will be transferred to the Recapitalisation Fund within 45 days of their deposit in the Government General Account and the remaining 25/60 will remain in that Account. All transfers to the Recapitalisation Fund will cease upon accumulation of a total amount of €175 million in that Fund.

2.17. Financial instruments

(a) Recognition

The Group initially recognises loans and advances to customers, customer deposits and loan capital issued on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest or obligation in transferred assets that is created or retained by the Group is recognised as a separate asset or liability.

If the terms of a financial asset are renegotiated or an existing asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset is derecognised and the new financial asset is recognised at fair value.

The Group derecognises a financial liability when its contractual obligation is discharged, cancelled or expired.

(c) Offsetting

Financial assets and liabilities are set off and the net amount is presented in the statement of financial position only when the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions.

(d) Initial measurement

A financial asset or financial liability is measured initially at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

(e) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

(f) Fair value measurement

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

The Group measures the fair value of an instrument using the quoted price in an active market, when available for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the main factors that market participants would take into account in pricing a transaction.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Group on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

(g) Derivatives

Derivatives include mainly forward contracts, interest rate and currency swaps, credit default swaps, futures and options.

Derivatives are recognised and measured at fair value. When their fair value is positive, derivatives are included in other assets and when their fair value is negative they are included in other liabilities. Changes in the fair value of derivatives are recognised in the income statement in net gains/(losses) on disposal and revaluation of foreign currencies and financial instruments.

(h) Financial assets

The Group has classified its financial assets that comprise of balances with Central Banks, placements with other banks, loans and advances to customers, investments in debt securities and investment in equity securities and collective investments units, under the following four categories. Financial assets are classified in these categories upon their initial recognition based on their characteristics and the purpose for which they were acquired.

(i) Held to maturity

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity and they do not meet the loans and receivables definition.

After initial measurement, held to maturity investments are measured at amortised cost using the effective interest method less provisions for impairment.

Sale or reclassification of a more than insignificant amount of held to maturity investments not close to their maturity, will result in the reclassification of all held to maturity investments as available for sale, and prevent the Group from classifying investment securities as held to maturity for the current and the following two financial years.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) At fair value through profit or loss

Financial assets at fair value through profit or loss are analysed in two categories:

Financial Assets held for trading: include financial assets acquired or incurred principally for the purpose of selling or repurchasing them in the near term or which are part of a portfolio of identified financial assets that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial Assets designated as at fair value through profit or loss upon initial recognition: include financial assets initially designated in this category when this designation results in more relevant information, because either:

- it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases, or
- a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Group is provided internally on that basis to the Group's Key Management personnel.

The changes in fair value of financial assets at fair value through profit or loss are recognised in the income statement.

(iii) Available for sale

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified under another category of financial assets. Available for sale investments may be held for an undetermined period of time or may be sold in response to changes in market risks or liquidity requirements.

Subsequent to initial recognition, available for sale investments are measured at fair value and changes therein, other than impairment losses are recognised directly in equity. When an investment is sold or impaired, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

(iv) Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Cash and balances with Central Banks, placements with other banks and loans and advances to customers are classified under this category. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method less provisions for impairment losses.

(i) Loan capital

Loan capital is initially measured at the fair value of the consideration received minus transaction costs that are directly attributable to the issue of the loan capital. Subsequently it is measured at amortised cost using the effective interest method, in order to amortise the difference between the cost and the redemption value, over the period to the earliest date that the Bank has the right to redeem the loan capital.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Convertible bonds

On issuance of compound financial instruments that contain both liability and equity elements, these are accounted for separately, as financial liabilities and equity respectively. When the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument, as a whole, the amount separately determined for the liability component. On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option.

No gain or loss arises from initially recognising the components of the instrument separately. The liability component is subsequently measured at amortised cost using the effective interest rate method in order to amortise the difference between the nominal value and the carrying value at inception until it is extinguished on conversion or redemption. The equity component is not subsequently remeasured.

(k) Convertible Capital Securities (CCS)

CCS are perpetual financial instruments issued by the Bank. They have no maturity date and can be converted to shares during the conversion periods upon their holder's decision. The Bank may, at its discretion, at any time, and taking account its financial position as well as its solvency, cancel the interest payment on a non-cumulative basis. Any cancellation of interest payment will be final and will no longer be payable by the Bank.

The Bank, in applying the provisions of the Prospectus dated 30 September 2013, may, at its sole discretion, redeem the CCS at par, including accrued interest, excluding any cancelled interest, the whole or part of CCS1 or/and CCS2. In case of a redemption of part of the CCS1 or/and CCS2, the redemption will occur for all holders of CCS1 or/and CCS2 in proportion to the CCS1 or/and CCS2 they hold.

The CCS will be mandatorily converted into Bank's ordinary shares, if any of the contingent conversion triggers as defined in the Prospectus dated 30 September 2013 occur.

(l) Customer deposits and other customer accounts

Subsequent to initial recognition, customer deposits and other customer accounts are measured at amortised cost using the effective interest method, except for certain deposits linked to derivatives that the Group has elected to classify as financial liabilities at fair value through profit or loss. Any changes in fair value in respect of deposits designated as at fair value through profit or loss are recognised in the income statement.

2.18. Impairment

(a) Financial assets

At the end of each reporting period the Group assesses whether there is any objective evidence that financial assets not carried at fair value through profit or loss are impaired.

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that the borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Loans and advances to customers

The Group reviews its loan portfolio, for evidence of impairment loss from past events, at both individual and collective basis. Significant loans are assessed at an individual basis. Non-significant loans are collectively evaluated for impairment losses. Significant loans that are assessed on an individual basis and found not to be impaired are also assessed on a collective basis for losses incurred but not reported (IBNR). These loans are grouped based on similar credit risk characteristics and evaluated for impairment. Impairment losses on the various groups are calculated on a collective basis. In assessing collective impairment the Group uses historical trends of the probability of default demonstrated by the relevant groups with similar risk characteristics.

Impairment loss on loans and advances to customers is measured as the difference between the carrying amount of the asset and the present value of estimated future cash flows discounted at the loan's original effective interest rate. Losses are recognised in the income statement and accumulated in an impairment loss reserve as stated in Note 3.1.

When a subsequent event causes the amount of the provision for impairment loss to decrease or amounts are collected from impaired loans, the decrease in impairment loss is reversed through the income statement.

The Group writes off a loan either partially or in full, with any related allowance for impairment losses, when there is no realistic prospect of recovery of the contractual cash flows. If a previously written-off loan is subsequently recovered, any amounts previously charged are credited to the income statement.

(ii) Held to maturity investments and investments classified as loans and receivables

If there is objective evidence that an impairment loss on held to maturity investments and investments classified as loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the investment's original effective interest rate. The amount of the loss is recognised in the income statement and the carrying amount of investments is reduced.

For investments in debt securities, the principal indication of impairment is the downgrading of the credit rating of the issuer.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed in the income statement.

(iii) Available for sale investments

When there is objective evidence that an available for sale investment is impaired, the cumulative loss that had been recognised in equity is reclassified from equity to the income statement. The amount of the cumulative loss that is reclassified from equity to the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that investment previously recognised in the income statement.

For investments in debt securities, the principal indication of impairment is the downgrading of the credit rating of the issuer. For investments in shares the main evidence of impairment is a significant or prolonged decline in the fair value below its cost. Generally, the Group considers that a reduction of 20% below cost is significant and a period of nine months is prolonged. However in special cases a smaller decrease or a shorter period may be objective evidence of impairment.

If, in a subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss will be reversed, with the amount of the reversal recognised in the income statement. Impairment losses recognised in the income statement for impaired available for sale equity securities are not reversed through the income statement but are recognised in equity.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The loss from impairment of goodwill is non-reversible. The loss from impairment of other non-financial assets is reversible only to the extent that the carrying value does not exceed net carrying value that the non-financial asset would have if the impairment loss was not recognised.

2.19. Property, plant and equipment

Owner-occupied property is property held by the Group for use in the supply of services or for administrative purposes. The classification of property is reviewed on a regular basis to account for any major changes in use. Owner occupied land and buildings are initially recognised at cost and are subsequently measured at fair value less accumulated depreciation and impairment losses. Fair value is determined from market-based valuations undertaken by professionally qualified valuers periodically between three to five years. Plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes all expenditure that is directly attributable to the acquisition of the asset.

Depreciation for property, plant and equipment is recognised in the income statement on a straight line basis over the estimated useful lives of the assets. Land is not depreciated.

The depreciation rates used are as follows:

Buildings	2%
Leasehold improvements	20%
Plant and equipment	10% to 25%

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Gains and losses on disposal of property, plant and equipment, that are determined as the difference between the net disposal proceeds and the carrying amount of the asset, are included in the income statement when the item is derecognised.

When the use of a property changes from owner-occupied to investment property, the property is remeasured to fair value and reclassified accordingly. Any gain arising on this remeasurement is recognised in profit or loss to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in the Statement of Comprehensive Income and presented in the revaluation reserve. Any loss is recognised in profit or loss.

2.20. Property revaluation reserve

Any surplus arising on the revaluation of land and buildings is credited to the property revaluation reserve that is included in equity. If, after a revaluation, the depreciation charge is increased, then an amount equal to the increase (net of deferred taxation), is transferred annually from the property revaluation reserve to revenue reserves. Upon disposal of revalued property, any relevant accumulated revaluation surplus which remains in the property revaluation reserve is also transferred to revenue reserves.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21. Investment property

Investment property, comprises of properties which are not occupied by the Group and are held for rental yields and/or capital appreciation. Investment property is initially measured at cost, including transaction cost, and subsequently at fair value with any change therein recognised in the income statement.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss. When investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

Transfers to or from the investment property are made only when there is a change in use.

2.22. Intangible assets

Goodwill

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entities at the date of acquisition. When the excess is negative (negative goodwill) is recognised immediately in the income statement.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. The carrying amount of goodwill is reviewed for impairment at least on an annual basis.

Present value of acquired in-force business (PVIF)

PVIF represents agents' portfolios acquired separately. PVIF is initially recognised at cost. Subsequent to initial recognition, the intangible asset is carried at cost less accumulated amortisation and accumulated impairment losses. The intangible asset is amortised over the useful life of the acquired in-force policy during which future premiums are expected, which is typically determined at 4 years, and is recognised in the income statement. PVIF is tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement. PVIF is derecognised when the related contracts are settled or disposed of.

Computer software

Computer software is measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful life of the software estimated at five years.

2.23. Cash and cash equivalents

Cash and cash equivalents include cash and unrestricted balances with Central Banks, investment in debt securities, placements with other banks and repurchase agreements, with original maturities of less than three months.

Cash and cash equivalents are presented in the statement of financial position at amortised cost.

2.24. Share capital and Share premium reserve

The difference between the issue price of share capital and its nominal value is recognised in the share premium reserve.

Expenses incurred from increase of authorised capital and issue of share capital are directly recognised in equity in the same year.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.25. Own shares reserve

Shares of the Bank held by the Group's subsidiaries are deducted from the equity on their purchase. When own shares are sold or reissued subsequently, no gain or loss is recognised in the consolidated income statement.

2.26. Derivatives and hedge accounting

The Group designates certain derivatives held for risk management purposes as hedging instruments in qualifying hedging relationships. Hedging relationships are classified as fair value hedges or cash flow hedges. A hedging relationship qualifies for hedge accounting if the following conditions are met:

- (a) Existence of formal documentation describing the derivative and the hedging objectives, as well as the specific hedged item.
- (b) Existence of documented risk management strategy according to which the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk throughout the financial reporting periods for which the hedge was designated.
- (c) Maintenance of reliable monitoring systems and verification of the high continuous effectiveness of the hedging derivative.

For fair value hedges, changes in the fair value of the derivative are recognised in the income statement together with changes in the value of the hedged item attributable to the hedged risk.

For cash flow hedges, the effective portion of changes in the fair value of the derivative is recognised directly in equity. The amount recognised in equity is removed and included in the income statement in the same period as the hedged cash flows affect the income statement under the same income statement line as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in the income statement.

If the hedge no longer meets the criteria for hedge accounting the relevant adjusting entries are made and hedge accounting is discontinued.

For the remaining derivatives where the criteria are not satisfied in order to qualify for hedge accounting or which are held for trading, the accounting policies for financial instruments held for trading are applied. Several of the derivatives have been acquired with the intention of hedging interest rate or foreign currency risks.

Certain derivative transactions, while providing effective economic hedges under risk management, do not qualify for the use of hedge accounting. These derivatives are included under other assets or liabilities, with any changes in their fair value recognised in the income statement for the year.

These include derivatives held for offsetting interest rate or other risks, in relation to other assets and liabilities that are selectively designated as at fair value through profit or loss and which do not qualify for the use of hedge accounting.

The Group also hedges the foreign currency risk that derives from the translation to Euro of the net position of its foreign subsidiaries by maintaining an open foreign exchange position. All exchange differences resulting from the translation of the open foreign exchange position are recognised in the translation reserve.

2.27. Repurchase agreements

Repurchase agreements represent agreements with Central Banks. Cash received under the agreements, including accrued interest, is recognised as a liability on the statement of financial position. The relevant debt securities disposed to be repurchased at a future date are not derecognised from the statement of financial position. The difference between the sales price and repurchase price is recognised as interest expense over the duration of the agreement using the effective interest rate method.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.28. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that is responsible for allocating resources to and assessing the performance of the operating segments of the Group.

For management purposes, the Group is organised into two operating segments in Cyprus based on the provision of services, as follows:

- Banking and financial services segment - principally providing banking and financial services, including financing and investment services, custodian and factoring services as well as management and disposal of properties. Banking and financial services segment also includes the share of results of associate company,
- Insurance services segment - principally providing life and general insurance services.

Management monitors the operating results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss before taxation which is measured in the same manner as in the Consolidated Financial Statements.

Transfer prices between segments are on an arm's length basis in a manner similar to transactions with third parties. Balances and transactions between segments are eliminated on consolidation.

2.29. Assets held for sale

The Group classifies non-current assets as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. The condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. When the Bank is committed to a sale plan involving loss of control of a subsidiary, the total assets and liabilities of that subsidiary are classified as held for sale, regardless of whether non-controlling interest in its former subsidiary after the sale is retained. Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification and gains or losses from subsequent measurement are recognised in the income statement. A gain is only recognised to the extent that it is not in excess of the cumulative impairment loss that has been recognised. Non-current assets held for sale are not depreciated once they have been classified under this category.

Loans and advances to customers classified as held for sale are loans and advances which management is committed to sell and has proceeded with an active programme to complete this plan.

2.30. Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings

Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings are recognised when:

- (a) the Group has a present obligation (legal or constructive) as a result of a past event,
- (b) an outflow of resources embodying economic benefits to settle the obligation is probable and
- (c) a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the facts and circumstances of any litigation or arbitration proceedings. When a separate liability is measured, the most likely outcome may be considered the best estimate of the liability.

Notes to the Financial Statements

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

Where the effect of the time value of money is material, the amount of the provision is the present value of the estimated future expenditures expected to be required to settle the obligation.

Where an outflow of resources embodying economic benefits to settle the obligation is possible, a contingent liability is disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

2.31. Provisions to cover credit risk resulting from commitments and guarantees

The Group enters into various contingent liabilities. These include acceptances and endorsements, guarantees, undrawn formal standby facilities, undisbursed loans amounts and other commitments. Although these liabilities are not recognised in the consolidated statement of financial position, they expose the Group to credit risk. To cover the credit risk a provision is calculated and recognised in other liabilities in the consolidated statement of financial position with a corresponding charge in the consolidated income statement under "Impairment losses and provisions to cover credit risk".

2.32. Stock of properties held for sale

Assets are classified as stock of properties held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This category includes property acquired in satisfaction of debt as well as own property which the Group no longer uses and intends to sell.

The Group, in its normal course of business, repossesses properties through debt to asset swaps and/or through foreclosures. These properties are held either directly or by entities set up and controlled by the Group (Special Purpose Vehicle(s) "SPV", indirect acquisition) for liquidation optimisation purposes. The SPV can be either a "single property owner" or "multi property owner".

Stock of properties held for sale is recognised in the statement of financial position and is included in other assets, reflecting the substance of these transactions. The initial measurement of the acquired property is based on the carrying amount of the debt settled. Subsequently to initial recognition, stock of properties held for sale are measured at the lower of cost and net realisable value (NRV). Any write-down to NRV is recognised as an expense in the period in which the write-down occurs. Any reversal is recognised in the income statement in the period in which the reversal occurs.

Profit or loss from disposal of stock of properties held for sale, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

2.33. Comparatives

Comparatives presented in the Financial Statements are restated, where considered necessary, to conform with changes in the presentation of the current year.

Notes to the Financial Statements

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of Financial Statements requires Management to make use of judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances and the results of which form the basis of making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Therefore, they involve risks and uncertainties as they relate to events and depend on circumstances that will occur in the future. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and in future periods if the revision affects both current and future periods.

The accounting policies that are deemed critical to the Group's results and financial position and which involve significant estimates and judgments are set out below:

3.1. Provision for impairment of loans and advances to customers

The Group reviews the loans and advances to customers to assess whether impairment losses should be recognised in the income statement and accumulated in an impairment loss reserve.

The Group assesses whether there is objective evidence of impairment of the loan portfolio on an individual and collective basis.

Indicatively, the following events may be considered by the Group as an evidence of impairment. However, one event alone may not constitute evidence of impairment while the absence of a specific event does not preclude the existence of impairment:

- 1) Credit facilities classified as non-performing.
- 2) Restructured credit facilities included in performing loans and advances.
- 3) Significant and sustained reduction of total income/future cash flows of the borrower.
- 4) Apparent deterioration of the debt servicing capacity of the borrower.
- 5) The possibility of the debtor's insolvency.
- 6) Significant reduction in the value of collateral.
- 7) Credit facilities with internal credit rating that represents high credit risk.
- 8) Credit facilities which are pending renewal, violating the relevant credit policy of the Bank.
- 9) Macroeconomic indications that may affect the expected future cash flows of the borrowers such as increase in unemployment rates and decline in real estate prices.

The loan portfolio which is assessed on an individual basis includes significant loans of economic groups that are above certain thresholds set by the Bank in accordance with the provisions of the Central Bank of Cyprus Directive on Loan Impairment and Provisioning Procedures as well as all credit facilities to:

- i) Shareholders with holdings in excess of 10% of the Bank's share capital and their connected persons.
- ii) Members of the Board of Directors of the Bank and their connected persons.
- iii) Key Management personnel and their connected persons.

Notes to the Financial Statements

3. USE OF ESTIMATES AND JUDGEMENTS (continued)

The amount of impairment loss on the value of loans and advances to customers which are examined on an individual basis, is measured as the difference between the carrying amount of the credit facility and the present value of estimated future cash flows, discounted at the credit facility's original effective interest rate. In cases where the interest rate of the loan is variable, the original effective interest rate is measured with reference to the initial margin corresponding to the current base rate of the interest rate and the value of the current base rate at the reporting date. The estimated future cash flows are based on assumptions about a number of factors and therefore the actual losses may be different. To determine the amount of impairment loss on the value of loans and advances to customers, judgment is involved regarding the amount and timing of estimated future cash flows. The estimated future cash flows include any expected cash flows from the borrowers operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable. The timing of these cash flows is estimated on a case by case basis.

Loans and advances assessed on an individual basis and for which no impairment loss is recognised are assessed on a collective basis. In addition, loans and advances that are below the materiality threshold for individually assessment, are assessed on a collective basis for impairment losses.

For the calculation of impairment loss on a collective basis, loans and advances are grouped based on similar credit risk characteristics and appropriate models are applied that take into account the recent historical loss experience of each group with similar credit risk characteristics adjusted for current conditions using appropriate probabilities of default and loss given default. Restructured facilities are classified in separate group with higher risk parameters.

These calculations include estimates and the use of judgment to supplement, assess and adjust accordingly the historical information and past experience events which determine the parameters and calculation of impairment losses as at the reporting date. The main assumptions used to estimate loss given default relate to the treatment of property collateral such as the time needed for collateral liquidation and the liquidation discount at the point of sale. For loans and advances assessed individually, the specifics of each case are taken into consideration in determining the property parameters.

The Bank has taken significant steps in enhancing its provisioning methodology. Since 2016, the Bank improved its property collateral database that allowed a more granular approach in provisioning. The new collateral information which was incorporated both in collective and individual provisioning takes into account the specificities of the properties by segmenting them into various property types and sub-types as well as by classifying them by district and location within each district. Different liquidation discounts are applied depending on the type and location of each collateral with the liquidation discount including cost ranging from 15% for a limited number of prime property types to 40% for non-prime properties. The resulting average liquidation discount for the collectively assessed portfolio is approximately 26% including costs.

Further improvements to the collective provisioning methodology relate to the alignment to the status of the portfolio and the NPL management strategies pursued by the Bank with the collective provision assessment by differentiating the liquidation period assumptions. The average liquidation period of the collateralised non-performing collectively-assessed portfolio is currently approximately 4,6 years while for performing loans, the liquidation period assumption is 5 years.

In addition, since June 2017 the Bank has proceeded with certain amendments to the parameters and assumptions for estimating the recoverable amount of property collateral values used in its provisioning methodology, relating primarily to the elimination of forward looking indexation in its collateral prices and the adoption of higher liquidation discounts at the point of sale for selected categories of non-prime properties. The amendments were made in the context of the International Financial Reporting Standards and take into account the Bank's accelerated plans for resolving problem loans, latest market developments, as well as the ongoing regulatory engagement with the European Central Bank (ECB) as part of the 2017 Supervisory Review and Evaluation Process (SREP).

Notes to the Financial Statements

3. USE OF ESTIMATES AND JUDGEMENTS (continued)

Accumulated impairment losses of the Group's loans and advances are inherently uncertain due to their sensitivity to economic and credit conditions of the environment in which the Group operates. Conditions are affected by many factors with a high degree of interdependency and there is not one single factor to which these conditions are particularly sensitive. It is possible for the actual conditions in the next financial year to differ significantly from the assumptions made during the current year, so that the carrying amount of loans and advances to be adjusted significantly.

For the purposes of providing an indication of the change in accumulated impairment losses as a result of changes in key loan impairment assumptions, the Bank utilised the collective models on the total loan and advances portfolio with reference date 31 December 2017, to carry out a sensitivity analysis. The simulated impact on the provisions for impairment of loans and advances is presented below:

Change on key assumptions	Increase/(decrease) on accumulated impairment losses on the total loan and advances portfolio €' million
Increase the liquidation period by 1 year	24
Decrease the liquidation period by 1 year	(25)
Increase the liquidation discount (i.e. reduce the recoverable amount from collateral) by 5%	35
Decrease the liquidation discount (i.e. increase the recoverable amount from collateral) by 5%	(33)

3.2. Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings

In order to assess whether a provision must be recognised, the Group examines whether there is a present obligation (legal or constructive) as a result of a past event, for which an outflow of resources embodying economic benefits is probable and a reliable estimate for the amount of the obligation can be made.

The Group obtains legal advice on the value of the provision of specific complaints and/or claims and arbitration.

The amounts recognised as provisions are the best estimates of the expenditure required to settle the present obligation at the end of the reporting period. When a separate liability is measured, the most likely outcome may be considered the best estimate of the liability. Due to the risks and uncertainties surrounding the facts and circumstances of any pending litigations or complaints and/or claims or cases subject to arbitration proceedings, a significant degree of judgement is required for the estimation of the relevant outcome.

3.3. Impairment of goodwill and investments in subsidiaries and associated companies

The process of identifying and evaluating impairment of goodwill and investments in subsidiaries and associated companies, is inherently uncertain because it requires significant Management judgement in making a series of estimates, the results of which are highly sensitive to the assumptions used. The review of impairment represents Management's best estimate of the factors below.

Firstly, significant Management judgement is required in estimating the future cash flows of the acquired entities. The values are sensitive to the cash flows projected for the periods for which detailed forecasts are available, and to assumptions regarding the long-term pattern of sustainable cash flows thereafter.

Notes to the Financial Statements

3. USE OF ESTIMATES AND JUDGEMENTS (continued)

The cash flow forecasts are compared with actual performance and verifiable economic data in future years. However, the cash flow forecasts necessarily and appropriately reflect Management's view of future business prospects. Additionally, the cost of capital used to discount future cash flows, can have a significant effect on the entity's valuation. For Special Purpose Vehicles (SPVs), the principal indication of impairment is a decrease in the carrying value of the underlying properties established using valuations carried out by qualified valuers who apply internationally accepted valuation models, use their market knowledge and professional judgement.

Any impairment of goodwill of the acquired entities affects the Group's results while any impairment of investments in subsidiaries and associated companies affects the Bank's results. PVIF are tested for impairment, annually and when circumstances indicate that the carrying value may be impaired. When the recoverable amount is less than the carrying value, an impairment loss is recognised in the income statement.

3.4. Fair value of investments

The best evidence of fair value of investments is a quoted price in an actively traded market. If the market for a financial instrument is not active, a valuation technique is used. The majority of valuation techniques employed by the Group use only observable market data and thus the reliability of the fair value measurement is relatively high. The Group uses models with unobservable inputs only for the valuation of non-listed investments. In these cases, the Group takes into account, amongst others, the net positions of the entities in which the investment has been made, as well as estimates of the Group's Management to reflect uncertainties in fair values resulting from the lack of data and significant adverse changes in technology, market, economic or legal environment in which the entity operates.

3.5. Impairment of available for sale and held to maturity investments

Available for sale investments in equity securities are impaired when there has been a significant or prolonged decline in their fair value below cost. In such a case, the total loss previously recognised in equity is recognised in the consolidated income statement. The determination of what is significant or prolonged requires judgement by Management. The factors which are taken into account in these estimates include the percentage reduction in the cost or impaired cost, as well as the net positions of the entities.

Available for sale and held to maturity investments in debt securities are impaired when there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the investment and the loss event (or events) has an impact on the estimated future cash flows of the investment. The identification of impairment requires judgement by Management. An individual assessment of impairment is carried out on debt securities whose fair value as at the date of the financial position has significantly decreased as well as the issuer has been downgraded.

3.6. Properties held for sale/stock of properties held for sale

Properties held for sale are measured at the lower of carrying amount and fair value less costs to sell. Impairment is considered both at the time of classification as held for sale and subsequently. Any impairment loss that arises is recognised in the income statement. A gain for any subsequent increase in the fair value less costs to sell of an asset can be recognised in the income statement to the extent that it is not in excess of the cumulative impairment loss that has been recognised.

Stock of properties is measured at the lower of cost and net realisable value. The estimated sales price is determined with reference to the fair value of properties. The best evidence of fair value is a quoted price in an active market. When the market is not active the fair value is established through valuations carried out by qualified valuers who apply internationally accepted valuation models, use their market knowledge and professional judgement. This exercise, depending on the nature of the underlying asset and available market information involves a degree of uncertainty. The determination of costs to sell may also require professional judgement which involves a degree of uncertainty due to the relatively low level of market activity.

Notes to the Financial Statements

3. USE OF ESTIMATES AND JUDGEMENTS (continued)

3.7. Taxation

The Group is subject to corporation tax in the countries in which it operates. Estimates are required in determining the provision for corporation taxes as at the date of the financial position. There is the possibility of a change in the tax treatment of impairment losses on the value of loans and advances other than those concerning customers individually assessed, as indicated in correspondence from the office of the Commissioner of Taxation and contrary to the policy applied by the Bank to date. Where the final tax is different from the amounts initially recognised in the income statement, such differences will impact the tax expense, the tax liabilities and deferred tax assets or liabilities of the period in which the final tax is agreed with the relevant tax authorities.

Deferred tax assets arising from tax losses are recognised to the extent that it is probable that the Group will generate future taxable profits against which these losses can be utilised. The recognition of deferred tax asset in respect of tax losses is based on judgements made in relation to the probability, sufficiency and timing of future taxable profits as well as the applicability of future tax planning strategies. These judgements rely on historical available information and estimations regarding, among others, macroeconomic conditions, changes in interest rates, real estate prices and demand, the level of the non-performing exposures and the expected results of operations based on the business model and strategic plan of the Group. The parameters underlying the judgements made are subject to uncertainty and may result in changes in the measurement of deferred tax asset compared to initial estimates.

Aiming at fulfillment of undertakings concerning harmonisation with EU VAT legislation given by the Republic on accession to the EU, the House of the Representatives approved amendments to the Cyprus VAT Legislation which were published in the Official Gazette on 13 November 2017, and provide that:

- With effect from 2 January 2018, transactions involving supply of land apparently intended to be built on, which are carried out as an economic activity will be subject to VAT.
- With effect from 2 January 2018, VAT imposed on supply of property involved in the loan restructuring process and transfers to the lender following a court order, will be settled through the reverse charge mechanism.
- With effect from 13 November 2017, VAT is imposed on lease and/or rental income from immovable property used in the exercise of economic activities that are subject to VAT. The “option not to tax” may be exercised under certain prerequisites published by the Commissioner of Taxation in the Government Gazette.

The above amendments may affect the value of the portfolio of immovable property either owned by the Group or held as collateral, depending on the location of each property, the legal status and nature of activities carried out by its owner and prevailing market conditions.

4. INTEREST INCOME

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Interest income from cash and balances with Central Banks	-	172	-	172
Interest income from placements with other banks	6.170	7.542	6.070	7.458
Interest income from loans and advances to customers	128.964	149.359	128.965	149.361
Interest income from debt securities	24.425	22.222	24.423	22.171
Interest income from other financial instruments	6.317	5.941	6.317	5.941
	165.876	185.236	165.775	185.103

Interest from loans and advances to customers include interest on the net carrying amount of impaired loans and advances amounting to €43,4 million (31 December 2016: €58,7 million).

Notes to the Financial Statements

5. INTEREST EXPENSE

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Interest expense on deposits by other banks	278	148	264	146
Interest expense on amounts due to Central Banks	7.995	7.456	7.995	7.456
Interest expense on customer deposits and other customer accounts	24.060	25.277	24.176	25.556
Interest expense on loan capital	242	522	242	522
Interest expense on other financial instruments	2.123	4.341	2.123	4.341
	34.698	37.744	34.800	38.021

6. FEE AND COMMISSION INCOME

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Banking fees and commissions	47.361	51.776	49.693	54.048
Commissions from insurance operations	2.011	3.507	-	-
Custodian services and asset management fees	767	1.085	767	1.011
Other fees and commissions	17	272	-	-
	50.156	56.640	50.460	55.059

7. FEE AND COMMISSION EXPENSE

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Banking fees and commissions	2.151	2.019	2.151	2.019
Commissions for insurance operations	1.965	1.769	-	-
Other fees and commissions	752	860	244	346
	4.868	4.648	2.395	2.365

8. NET GAINS ON DISPOSAL AND REVALUATION OF FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Gain on disposal and revaluation of foreign currencies	9.386	10.081	9.386	10.083
Gain on disposal of debt securities and other financial instruments:				
Instruments available for sale	1.332	2.114	1.360	2.114
Instruments held for trading	2	55	2	55
Surplus on revaluation of debt securities and other financial instruments:				
Instruments held for trading	1.558	1.059	1.558	1.059
Loss on disposal of equity securities:				
Instruments available for sale	(21)	-	-	-
Gain on disposal of VISA Europe Limited shares	-	14.040	-	14.040
Surplus on revaluation of equity securities:				
Instruments held for trading	156	12	156	12
Reversal of impairment loss on debt securities:				
Instruments available for sale	-	74	-	74
	12.413	27.435	12.462	27.437

Notes to the Financial Statements

8. NET GAINS ON DISPOSAL AND REVALUATION OF FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS (continued)

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Reversal of impairment loss on debt securities:				
Unlisted investments	-	74	-	74
	<u>-</u>	<u>74</u>	<u>-</u>	<u>74</u>

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Reversal of impairment loss on debt securities:				
Debt securities	-	74	-	74
	<u>-</u>	<u>74</u>	<u>-</u>	<u>74</u>

The gain on disposal and revaluation of foreign currencies of the Group results from the translation of monetary assets denominated in foreign currency at the reporting date and the realised gains on foreign currency transactions that were settled during the year.

For the year ended 31 December 2016, "Gain on disposal of VISA Europe Limited shares" relates to the gain recognised upon the completion of the acquisition of VISA Europe by VISA Inc on 21 June 2016.

The deal valued Visa Europe at approximately €18,37 billion and the proportion attributable to Hellenic Bank was split and valued as follows:

- (i) Cash consideration of €11 million received upon closing date.
- (ii) Preferred stock in Visa Inc.:
The value of the convertible shares received was estimated by converting each of the 4.090 Series C Visa Inc. shares into 13,952 Class A Common Stock at closing price on 30 June 2016. Due to the conversion of the shares taking place on the twelfth anniversary of the closing date of the agreement after settling any unresolved and outstanding cover claims, it was considered prudent to apply a haircut of 50% on the calculated value of the shares. As at 30 June 2016, Visa Inc. shares were valued at €1,9 million.
- (iii) Deferred cash payment:
The amount of deferred cash payment due to the Bank amounts to €1,0 million. The value of the deferred payment that was accounted for is €0,9 million and represents the net present value of the estimated due amount which will be paid shortly after the third anniversary of the closing date of the agreement.

9. OTHER INCOME

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Dividend income	1.000	2.872	4.279	7.087
Net income from insurance operations	15.377	14.732	-	-
Gain from the disposal of stock of properties held for sale	5.610	527	3.435	527
Sundry income	<u>23.597</u>	<u>2.632</u>	<u>22.241</u>	<u>2.465</u>
	<u>45.584</u>	<u>20.763</u>	<u>29.955</u>	<u>10.079</u>

Sundry income for the year ended 31 December 2017 includes a net gain of €19.012 thousand from the disposal of the Bank's Non-Performing Loan (NPL) and Real Estate (REO portfolio) Management Business (refer to Note 22).

Notes to the Financial Statements

10. STAFF COSTS

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Salaries	72.134	66.279	67.285	61.390
Employer's contributions for social insurance etc.	9.491	10.438	9.211	10.133
Provident Fund Contributions	5.299	5.289	5.075	5.032
	86.924	82.006	81.571	76.555

The Group participates in two different defined contribution retirement plans.

The terms of employment of the majority of Group employees are in accordance with the provisions of the Collective Agreement between the Cyprus Banks Employers Association and the Cyprus Union of Bank Employees under which a defined contributions Provident Fund for the Hellenic Bank Group staff was set up and since then operates in accordance with Cyprus legislation. In accordance with the Collective Agreement, as of 1 January 2012, employer contributions to the Provident Fund amounted to 14% of the gross salary (basic salary plus cost of living allowance) of each employee. Following the conclusion on 17 March 2014 of an agreement amending the Collective Agreement, the employers' contributions to the Provident Fund, with effect from 1 January 2014, were fixed at 9% for the years 2014 and 2015, 9,5% for 2016 and 11,5% for 2017. Following the conclusion on 31 July 2017 of a new agreement amending the Collective Agreement, the employers' contributions to the Provident Fund for 2017 and 2018 were set at 9%.

A number of staff are employed on the basis of personalised employment contracts that are not in accordance with the terms of the Collective Agreement. During 2015 these employees became members of a multi-employer defined contribution Provident Funds of their choice, to which the employer contributes 9% of the employee's gross salary. During 2017 an amount of €178 thousand (31 December 2016: €114 thousand) was charged to the income statement.

Group obligations towards the employees' retirement benefits are limited to payment of the contributions to each Provident Fund. Employer's contributions due for payment are recognised as staff costs.

On 31 December 2017, the number of staff employed by the Group was 1.535 (31 December 2016: 1.646 employees) and by the Bank 1.430 (31 December 2016: 1.531 employees). The average number of staff employed by the Group and the Bank for 2017 was 1.596 and 1.488 respectively (2016: Group 1.617, Bank 1.502). Upon completion of Voluntary Early Exit Scheme (VEES) (refer to Note 11), 231 applications were approved for participation in the Scheme (equivalent to approximately 14% of the Group's personnel).

11. ADMINISTRATIVE AND OTHER EXPENSES

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Impairment losses on stock of properties held for sale	200	1.025	112	990
Impairment losses on owner-occupied property	1.528	-	1.528	-
Operating leases of land and buildings	2.620	2.448	2.635	2.429
Repairs and maintenance	8.977	6.984	8.890	6.933
Consultancy and other professional services fees	9.875	11.735	9.377	11.287
Regulatory Supervisory fees	1.048	756	1.048	756
Central Bank of Cyprus Penalty	-	973	-	973
Special Levy on Credit Institutions	8.907	9.119	8.907	9.119
Provisions for pending litigations or complaints and/or claims (refer to Note 30).	179	149	179	149
Early retirement cost	41.354	1.101	38.346	835
Servicer's administration fees	9.229	-	8.694	-
Other administrative expenses	21.923	22.085	20.133	20.436
	105.840	56.375	99.849	53.907

Notes to the Financial Statements

11. ADMINISTRATIVE AND OTHER EXPENSES (continued)

Early retirement cost

The Group within the context of its strategic plan announced, on 20 November 2017, a VEES. The VEES was in line with the rules of Corporate Governance and gave staff the right to depart voluntarily from the Group, with an ex gratia amount. The VEES was effective from 20 November 2017 until 4 December 2017 (inclusive). Upon its completion, 231 applications were approved for participation in the VEES (equivalent to approximately 14% of the Group's personnel). The retirement of staff members took place progressively between December 2017 and February 2018.

During 2016, the contract of employment between 4 members of the staff (out of which 3 were Key Management personnel) and the Group was terminated, and an amount of €1.101 thousand (Bank: €835 thousand) was charged to the income statement under administrative expenses.

Servicer's administration fees

NPLs with a value of approximately €2,1 billion and REO portfolio with a market value of approximately €200 million are managed by APS Cyprus in consideration for an administration fee payable by the Bank. The administration fee paid to APS Cyprus comprises of both a fixed and a variable element. The level of fees payable to APS Cyprus varies according to the progress of collections with the majority of the fees being driven by the successful resolution of the portfolio.

During 2017, an amount of €9.229 thousand (including VAT) for the Group (2016: € nil), and €8.694 thousand for the Bank (2016: € nil) relates to the servicer's administration fees charged for the period 1 July 2017 to 31 December 2017 (refer to Note 22).

Central Bank of Cyprus Penalty

Administration and other expenses for the year ended 31 December 2016, include an amount of €973 thousand that relates to a financial penalty issued by the Central Bank of Cyprus (CBC) on 13 July 2016, relating to controls omissions and weaknesses in the implementation of due diligence measures and customer identification procedures, as part of the Bank's anti-money laundering and know-your-customer framework. The historical shortcomings were identified in an audit conducted by the CBC in September 2014 and related to the preceding years. The penalty did not relate to any identification of incidents of suppression of proceeds from any illegal activities. Hellenic Bank has made significant progress in rectifying these issues, following an independent review and subsequent restructuring as part of its business initiated since September 2014 and overseen by the Board of Directors. As part of this restructuring, a number of client accounts have been closed. At the same time, the Bank is continuing repositioning its International Banking Division strategy reflecting the changing regulatory environment with specific focus on anti-money laundering issues.

Consultancy and other professional services fees

The total fees for statutory auditors included in the consultancy and other professional services fees are analysed as follows:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Audit of annual accounts	430	225	229	111
Assurance services	36	22	12	11
Tax advisory	51	54	51	54
Other non-audit services	236	382	214	376
	753	683	506	552

Notes to the Financial Statements

12. IMPAIRMENT LOSSES AND PROVISIONS TO COVER CREDIT RISK

	2017	2016
	€'000	€'000
Impairment losses on the value of loans and advances (refer to Note 17)	86.130	122.235
Provisions to cover credit risk for contractual commitments and guarantees (refer to Note 30)	<u>(3.220)</u>	<u>(7.002)</u>
	<u>82.910</u>	<u>115.233</u>

13. TAXATION

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Corporation tax	1	(442)	-	-
Taxes withheld at source	(47)	(61)	(4)	(57)
Deferred tax	<u>3.539</u>	<u>(50.125)</u>	<u>3.497</u>	<u>(50.083)</u>
	<u>3.493</u>	<u>(50.628)</u>	<u>3.493</u>	<u>(50.140)</u>

According to the Income Tax Law 118(I)/2002 as amended, the Bank's taxable profit and that of its subsidiaries in Cyprus, is subject to corporation tax at the rate of 12,5%. Tax losses of Group companies in Cyprus, other than companies affected by article 13(8)(d)(i) of the Income Tax Law, can be offset against taxable profits of other Group companies in Cyprus and any tax losses not utilised can be carried forward and offset against the same entity's taxable profits of the next five years. Article 13(8)(d)(i) of the Income Tax Law provides that in the case where the disposal of shares held by one company in another company member of the same group is taxed as a trading transaction then the two companies are not considered group companies for loss relief purposes.

Profits earned by subsidiary companies and permanent establishments outside Cyprus are subject to taxation at the rates applicable in the country in which the operations are carried out.

Tax exemptions, allowances, deductions and offsets pursuant to Articles 8, 9, 10 and 13 of the Income Tax Law 118(I)/2002 are taken into consideration for the calculation of the tax liability.

According to the provisions of the Special Contribution for the Defence of the Republic Law, Companies that do not distribute 70% of their profits after tax, as these profits are defined by this Law, during the two years following the end of the year to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence at 17% will be payable on such deemed dividends to the extent that the shareholders (individuals and companies), at the end of the period of two years from the end of the fiscal year to which the profits refer, are Cyprus residents and in the case of individuals, Cyprus domiciles as well. The amount of the deemed dividend distribution is reduced by any actual dividend already distributed in respect of the year to which the profits refer. The special contribution for defence is paid by the Bank on behalf of the shareholders.

Other developments on taxation issues

- Loan Restructuring Exemption – An exemption from Capital gains tax (CGT)/Income Tax/Corporate Tax/Land Registry Fees/Stamp Duties is available on all transfers of immovable property (IP) or shares of companies owning IP as a result of loan restructuring arrangements concluded between Credit Institutions and borrowers. Following an amendment to the Laws this exemption has been extended and will be available until 31 December 2019.
- Bank Special Levy – The provisions of the Law have been amended in order to allow each Bank to deduct from the annual payable amount of Special Levy its contribution to the Single Resolution Fund and or the Resolution Fund as the case may be. As from 1 January 2018 and for every subsequent year, 35/60 of the special levy paid in accordance with the Law, will be transferred to the Recapitalisation Fund within 45 days of their deposit in the Government General Account and the remaining 25/60 will remain in that Account. All transfers to the Recapitalisation Fund will cease upon accumulation of a total amount of €175 million in that Fund.

Notes to the Financial Statements

13. TAXATION (continued)

During 2017, a deferred tax asset of €3,5 million was recognised and credited in the income statement (2016: charge €50,1 million). An amount of €3,8 million resulted from current and prior year tax losses for which is probable that the related tax benefit will realise (31 December 2016: €49,6 million). The derecognition of the deferred tax asset in 2016 of €51,2 million resulted from tax losses for which it was no longer probable that the related tax benefit will realise, as the majority of these losses will expire by 31 December 2018. The carrying amount of the deferred tax asset is based on judgements of the Management of the Bank on its ability to generate future taxable profits. These judgements are based on available information including historical data, improved macroeconomic estimates, the reduction in deposit rates, the stabilisation of the non-performing loans, the Bank's impairment process and the results of operations.

Reconciliation of taxation based on taxable income and taxation based on accounting profits

The Group	2017	2016
	€'000	€'000
Group loss before taxation	<u>(48.538)</u>	<u>(12.033)</u>
Taxation based on applicable tax rates	(6.067)	(1.504)
Expenses non-tax deductible	8.892	4.629
Non-taxable income	(4.283)	(2.635)
Tax effect of losses from overseas operations	(15)	(48)
Other taxation	122	62
Effect of current year tax losses	1.397	-
Deferred tax	<u>(3.539)</u>	<u>50.124</u>
Tax (credit)/debit for the year	<u>(3.493)</u>	<u>50.628</u>
The Bank	2017	2016
	€'000	€'000
Bank loss before taxation	<u>(50.738)</u>	<u>(14.349)</u>
Taxation based on applicable tax rates	(6.342)	(1.794)
Expenses non-tax deductible	8.129	4.549
Non-taxable income	(3.468)	(2.804)
Tax effect of losses from overseas operations	(15)	49
Other taxation	4	54
Effect of current year tax losses	1.696	-
Deferred tax	<u>(3.497)</u>	<u>50.086</u>
Tax (credit)/debit for the year	<u>(3.493)</u>	<u>50.140</u>

Taxation recognised in other comprehensive income:

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Deferred taxation on property revaluation	<u>(236)</u>	<u>(12)</u>	<u>(226)</u>	<u>(9)</u>

Notes to the Financial Statements

14. BASIC AND DILUTED LOSS PER SHARE

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Basic and diluted loss per share				
Loss attributable to owners of the parent company (€ thousand)	(45.658)	(63.477)	(47.245)	(64.489)
Average number of shares in issue during the year (thousand)	198.475	198.432	198.475	198.432
Basic and diluted loss per share (€cent)	(23.00)	(31.99)	(23.80)	(32.50)

As at 31 December 2017 and 2016 there were no options or instruments convertible into new shares therefore basic and diluted loss per share are the same.

15. CASH AND BALANCES WITH CENTRAL BANKS

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Cash	55.179	54.673	55.178	54.672
Balances with Central Banks	2.238.575	2.028.771	2.238.575	2.028.771
	2.293.754	2.083.444	2.293.753	2.083.443

On 31 December 2017, cash and balances with Central Banks included the deposit to the ECB amounting to €2.170 million (31 December 2016: €2.000 million). The obligatory deposits for liquidity purposes as at 31 December 2017, as determined by the CBC amounted to €58.228 thousand (31 December 2016: €60.668 thousand).

16. PLACEMENTS WITH OTHER BANKS

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Other placements with banks	226.465	419.176	224.273	419.167
Interbank accounts	121.711	129.726	111.999	118.092
	348.176	548.902	336.272	537.259

The analysis of placements with other Banks based on their remaining contractual maturity as at 31 December is as follows:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
On demand	204.427	81.126	194.715	69.493
Within three months	47.860	363.870	47.600	363.860
Between three months and one year	2.182	455	250	455
Between one year and five years	93.707	103.451	93.707	103.451
	348.176	548.902	336.272	537.259

On 31 December 2017, an amount of €97.596 thousand (31 December 2016: €110.978 thousand) is pledged as collateral on placements with other banks, being common practice among financial institutions.

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS

	The Group and the Bank	
	2017	2016
	€'000	€'000
Trade	703.918	744.499
Construction and Real Estate	859.397	1.081.122
Manufacturing	253.077	255.450
Tourism	258.227	262.422
Other sectors	702.628	682.807
Retail	1.277.666	<u>1.273.817</u>
	4.054.913	4.300.117
Accumulated impairment losses	(1.288.175)	<u>(1.374.084)</u>
	2.766.738	<u>2.926.033</u>

Analysis of loans and advances to customers based on their remaining contractual maturity as at 31 December, is as follows:

	The Group and the Bank	
	2017	2016
	€'000	€'000
On demand	1.905.830	2.159.648
Within three months	121.236	94.472
Between three months and one year	181.212	221.218
Between one year and five years	740.310	784.489
Over five years	1.106.325	<u>1.040.290</u>
	4.054.913	4.300.117
Accumulated impairment losses	(1.288.175)	<u>(1.374.084)</u>
	2.766.738	<u>2.926.033</u>

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Accumulated impairment losses on the value of loans and advances

	The Group and the Bank	
	2017	2016
	€'000	€'000
Individual impairment losses		
<i>On an individual and collective assessment basis</i>		
1 January	<u>1.346.526</u>	<u>1.269.536</u>
Contractual interest on impaired loans	154.304	164.001
Unwinding of discount	<u>(43.366)</u>	<u>(58.680)</u>
	110.938	105.321
Net write-offs of loan impairment losses	(140.927)	(156.138)
Charge for the year	90.242	123.972
Transfer to other assets	(124.745)	-
Exchange difference	<u>(10.069)</u>	<u>3.835</u>
	<u>(74.561)</u>	<u>76.990</u>
31 December	<u>1.271.965</u>	<u>1.346.526</u>
Collective impairment losses		
<i>On collective assessment basis (IBNR)</i>		
1 January	<u>27.558</u>	<u>33.587</u>
Net write-offs of loan impairment losses	(6.916)	(4.372)
Release for the year	(4.112)	(1.737)
Transfer to other assets	(2)	-
Exchange difference	<u>(318)</u>	<u>80</u>
	<u>(11.348)</u>	<u>(6.029)</u>
31 December	<u>16.210</u>	<u>27.558</u>
Accumulated impairment losses	<u>1.288.175</u>	<u>1.374.084</u>

During the second quarter of 2017 the Bank proceeded with certain amendments to the parameters and assumptions used for estimating the recoverable amount of property collateral values used in its provisioning methodology, relating primarily to the elimination of forward looking indexation in its collateral prices and the adoption of higher liquidation discounts at the point of sale. The amendments were made in the context of the International Financial Reporting Standards and take into account the Bank's accelerated plans for resolving problematic loans, latest market developments, as well as the ongoing regulatory engagement with the ECB as part of the 2017 SREP.

Impaired loans and advances

Represent the loans and advances for which the Group determines that there is objective evidence for impairment as a result of one or more loss events occurring after initial recognition and which have an impact on the estimated future cash flows as assessed either on an individual basis or on a collective basis. The resulting impairment loss is recognised under "Individual impairment losses". These loans and advances are classified in Grade 3 (high risk) based on the Group's credit risk assessment system.

Loans with renegotiated terms due to the deterioration of the financial position of the customer are usually considered impaired, if the Group determines that, according to the loan contractual terms, non-repayments of the total principal and contractual interest due is possible.

Interest income on impaired loans and advances, which corresponds to their carrying amount, is recognised in the income statement for the year ended 31 December 2017 and amounted to €43,4 million (31 December 2016: €58,7 million).

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Non-impaired loans and advances

The loans and advances which were not found to be impaired, are presented in risk categories based on the credit risk assessment system of the Group. The risk categories are as follows:

Grade 1 (Low Risk):

An immediate ability to repay the credit facility is assumed.

Grade 2 (Medium Risk):

The probability of indirect recovery of the credit facility is assumed.

Grade 3 (High Risk):

The debtor presents a higher risk compared to Grade 1 and 2 on the existence of direct and indirect recovery of the credit facility.

Past due but not impaired loans and advances

Represent non-impaired loans and advances for which the contractual interest or principal repayments are past due and the Group determines that there is no objective evidence of impairment by taking into account, among others, the value of available collateral.

Collateral

On the basis of the Group's policy, the amount of credit facilities granted should be based on the repayment capacity of the relevant counterparties. Furthermore, policies are applied for the hedging and mitigation of credit risk through the holding of collateral. These policies define the types of collaterals held and the methods for estimating their fair value.

The main collaterals held by the Group include mortgage interests over property, pledging of cash, government and bank guarantees, charges over business assets as well as personal and corporate guarantees.

Property collateral relates to immovable commercial, residential and land real estate collateral. The Bank maintains a Property Valuations Policy which provides a standardized approach for acceptable property valuations from independent professional valuers, the selection criteria and the processes to evaluate the performance of property valuers. The Policy outlines the frequency for revaluations, establish the criteria for monitoring collateral values and introduces the use of indexation. The open market value of property is indexed to present, using appropriate property indices (CBC and RICS). Indices are monitored, validated and back tested in order to accurately reflect the current market values of the property collaterals of the Bank.

The value of tangible collateral for loans and advances classified as impaired both under Collective and Individual assessments amounted to €1.384 million as at 31 December 2017 (31 December 2016: €1.677 million). The value of tangible collateral for loans and advances past due but not impaired amounted to €229,3 million as at 31 December 2017 compared to €239,1 million as at 31 December 2016. The decreases are in line with the decrease on the respective portfolios.

Aiming at fulfillment of undertakings concerning harmonization with EU VAT legislation given by the Republic on accession to the EU, the House of the Representatives approved amendments to the Cyprus VAT Legislation which were published in the Official Gazette on the 13 November 2017. These amendments may affect the value of the portfolio of immovable property either owned by the Group or held as collateral, depending on the location of each property, the legal status and nature of activities carried out by its owner and prevailing market conditions.

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Forborne Exposures

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

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

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

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

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

Non-performing exposures (NPEs) according to the EBA's technical standards

The EBA published in 2014 its technical standards with respect to non-performing and forborne exposures which were adopted by the European Commission (EC) through the Commission Implementation Regulation (EU) 2015/1278. Exposures include all debt instruments (loans and advances and debt securities) and off-balance sheet exposures, except those held for trading exposures.

As per the above regulation, the following are considered as NPEs:

- (i) Material exposures that are over 90 days past due,
- (ii) The debtor is assessed as unlikely to pay its credit obligations in full without realisation of collateral, regardless of the existence of any past-due amount or of the number of days past due,
- (iii) Exposures in respect of which a default is considered to have occurred in accordance with Article 178 of Regulation (EU) No 575/2013,
- (iv) Exposures of debtors against whom legal action has been taken by the Bank or exposures of bankrupt debtors,
- (v) Exposures that are found impaired as per the applicable accounting framework,
- (vi) Forborne exposures that were NPE at forbearance or became NPE after forbearance and which are re-forborne while under probation (the probation period for forborne exposures begins once the contract is considered as performing and lasts for two years minimum),
- (vii) Forborne exposures reclassified from NPE status i.e. that were NPE at forbearance or became NPE after forbearance and present more than 30 days past due while under probation
- (viii) Further to the above the all-embracing criteria apply as follows: (a) for debtors classified as retail debtors as per the Regulation (EU) No 575/2013, when the Bank has on-balance sheet exposures to a debtor that are material and are past due by more than 90 days the gross carrying amount of which represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, all on and off-balance sheet exposures to that debtor shall be considered as non-performing and (b) for debtors classified as non-retail debtors as per the Regulation (EU) No 575/2013, when the Bank has any on-balance sheet exposures to a debtor that are non-performing (if the exposure is non-performing due to over 90 days past due it must pass the materiality thresholds), all on and off-balance sheet exposures to that debtor shall be considered as NPE. Else, only exposures that are non-performing will be classified as such.

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

For exposures to debtors classified as Retail as per the Regulation (EU) No 575/2013:

- For term loans: if the past due amount of each exposure is over €500 the exposure shall be classified as material.
- For overdrafts/current accounts: if the past due amount or the excess of the exposure exceeds €500 or 10% of the limit approved by the Bank the exposure shall be classified as material.

For exposures to debtors not classified as Retail as per the Regulation (EU) No 575/2013:

- If the total excesses/past dues of debtors exceed €1.000 or exceed 10% of their total on balance sheet exposures then all the exposures of the debtor shall be classified as material.

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

Exposures may be considered to have ceased being non-performing when all of the following conditions are met:

- (a) the situation of the debtor has improved to the extent that full repayment, according to the original or when applicable the modified conditions, is likely to be made,
- (b) the debtor does not have any amount past-due by more than 90 days.

When forbearance measures are extended to non-performing exposures or to exposures which had been non-performing at forbearance or became non-performing after forbearance, the exposures may be considered to have ceased being non-performing only when all the following conditions are met:

- (a) the extension of forbearance measures do not lead to the recognition of impairment or default,
- (b) one year has passed since the forbearance measures were extended,
- (c) there is not, following the forbearance measures, any past-due amount or concerns regarding the full repayment of the exposure according to the post-forbearance conditions,
- (d) the debtor does not have any amount past due by more than 90 days.

As per EBA technical standards evidence of a concession towards a debtor which aim to address existing or anticipated difficulties on the part of the borrower to service debt in accordance with the current repayment schedule, includes:

- (a) the modification of the previous terms and conditions of a contract would not have been granted had the debtor not been in financial difficulties,
- (b) a difference in favour of the debtor between the modified and the previous terms of the contract,
- (c) cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the same institution.

Examples of exposures that should be classified as forborne as per the EBA technical standards include:

- (a) Exposures that were non-performing at forbearance,
- (b) Exposures that were past due more than 30 days anytime within 3 months prior to forbearance,
- (c) Forbearance measures such as partial write-offs.

The forbearance classification shall be discontinued when all of the following conditions are met:

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

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Based on the above categories, loans and advances to customers of the Group and the Bank, are presented as follows:

	Loans and advances to customers	
	2017 €'000	2016 €'000
Carrying amount	2.766.738	2.926.033
Impaired:		
Grade 3 (high risk)	2.121.870	2.473.278
Individual impairment losses	(1.271.965)	(1.346.526)
Carrying amount	849.905	1.126.752
<i>Of which with forbearance measures</i>	433.205	561.943
Past due but not impaired:		
Grade 1 (low risk)	63.178	64.527
Grade 2 (medium risk)	47.154	84.416
Grade 3 (high risk)	9.269	3.354
Carrying amount	119.601	152.297
<i>Past due comprises:</i>		
0+ up to 30 days	64.944	62.117
30+ up to 60 days	24.180	62.543
60+ up to 90 days	23.130	23.921
90 days+	7.347	3.716
Carrying amount	119.601	152.297
<i>Of which with forbearance measures</i>	43.791	62.161
Neither past due nor impaired:		
Grade 1 (low risk)	1.496.186	1.356.264
Grade 2 (medium risk)	304.350	301.527
Grade 3 (high risk)	12.906	16.751
Carrying amount	1.813.442	1.674.542
<i>Of which with forbearance measures</i>	208.355	275.416
Balances after individual impairment losses	2.782.948	2.953.591
Collective impairment losses	(16.210)	(27.558)
Total carrying amount	2.766.738	2.926.033

The movement of the net carrying amount of the Group's and the Bank's impaired loans and advances to customers is as follows:

	2017 €'000	2016 €'000
1 January	1.126.752	1.259.215
Transfer to non-impaired loans and advances during the year	(210.355)	(232.862)
Transferred to other assets	(7.141)	-
Net movement of impaired loans and advances	(131.878)	(95.660)
	777.378	930.693
Loans and advances classified as impaired during the year	72.527	196.059
31 December	849.905	1.126.752

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

The Group's and the Bank's loans and advances with forbearance measures are analysed below:

	Gross Loans		After individual impairment	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Trade	164.794	107.604	112.925	73.555
Construction and Real Estate	475.757	674.880	263.545	431.447
Manufacturing	51.602	54.361	28.448	36.004
Tourism	37.641	67.175	29.587	55.428
Other sectors	163.755	209.086	114.472	154.191
Retail	187.024	197.762	136.374	148.895
	1.080.573	1.310.868	685.351	899.520

The tangible collateral relating to loans and advances with forbearance measures amounted to €1.101 million as at 31 December 2017 (31 December 2016: €1.428 million).

Non-Performing Exposures (NPEs)

According to the CBC Directive on Loan Impairment and Provisions Practices (2014 and 2015), the credit institutions are obliged to announce Table A and Table B as presented below. The non-performing exposures portfolio of the Group as at 31 December 2017 amounted to €2.162 million (taking into account the NPE trade agreement, refer to Note 26), (31 December 2016: €2.504 million).

The ratio of NPEs to gross loans was 53,3% (31 December 2016:58,2%). The gross book value of NPEs include contractual interest not recognised in the income statement.

The NPEs provision (individual and collective impairment losses) coverage was 59,6% as at 31 December 2017 (31 December 2016: 54,9%).

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio according to the counterparty sector as at 31 December 2017

Table A

	Total loan portfolio				Cumulative Impairment losses			
	€'000	of which non-performing exposures €'000	of which exposures with forbearance measures		€'000	of which non-performing exposures €'000	of which exposures with forbearance measures	
			€'000	of which on non-performing exposures €'000			€'000	of which on non-performing exposures €'000
Loans and advances*	4.049.627	2.161.772	1.080.573	849.381	1.288.175	1.271.965	400.121	395.222
General Governments	983	131	-	-	1	-	-	-
Other financial corporations	104.909	29.069	25.384	20.492	15.817	15.289	9.595	9.553
Non-financial corporations	2.597.920	1.464.438	848.823	694.717	847.116	836.971	332.299	329.633
of which: Small and Medium-sized enterprises	2.413.986	1.416.401	819.829	678.091	818.835	810.365	327.000	324.407
of which: Commercial real estate	484.979	190.107	163.388	119.145	86.649	83.823	46.861	46.108
By sector								
1. Construction	628.536	499.366			290.036			
2. Wholesale and retail trade	672.430	408.296			240.372			
3. Real estate activities	217.151	122.104			70.489			
4. Accommodation and food service activities	293.416	113.676			56.175			
5. Manufacturing	248.798	102.340			65.738			
6. Other sectors	537.589	218.656			124.306			
Households	1.345.815	668.134	206.366	134.172	425.241	419.705	58.227	56.036
of which: Residential mortgage loans	590.344	183.947	90.883	47.399	86.499	84.260	16.358	15.248
of which: Credit for consumption	251.399	148.708	17.027	11.225	120.462	119.130	3.973	3.721

*Excluding loans and advances to central banks and credit institutions.

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio according to the counterparty sector as at 31 December 2016

Table A

	Total loan portfolio				Cumulative Impairment losses			
	€'000	of which non-performing exposures €'000	of which exposures with forbearance measures		€'000	of which non-performing exposures €'000	of which exposures with forbearance measures	
			€'000	of which on non-performing exposures €'000			€'000	of which on non-performing exposures €'000
Loans and advances*	4.300.117	2.503.866	1.310.868	983.643	1.374.084	1.346.526	419.142	411.348
General Governments	1.447	-	-	-	14	-	-	-
Other financial corporations	66.370	31.514	33.468	21.675	17.518	16.805	10.801	10.398
Non-financial corporations	2.869.983	1.772.477	1.052.328	812.283	940.856	922.225	349.262	343.975
of which: Small and Medium-sized enterprises	2.675.041	1.705.248	1.004.426	782.109	907.509	891.315	337.519	332.307
of which: Commercial real estate	498.278	217.860	175.392	112.015	91.040	86.080	43.644	42.012
By sector								
1. Construction	801.406	653.664			313.257			
2. Wholesale and retail trade	701.465	418.713			258.432			
3. Real estate activities	265.598	164.855			89.458			
4. Accommodation and food service activities	302.612	144.231			67.082			
5. Manufacturing	250.768	113.213			64.655			
6. Other sectors	548.134	277.801			147.972			
Households	1.362.317	699.875	225.072	149.685	415.696	407.496	59.079	56.975
of which: Residential mortgage loans	619.380	236.427	97.458	53.951	102.947	100.496	17.035	16.222
of which: Credit for consumption	246.895	144.834	17.794	11.225	114.412	112.072	4.362	4.034

*Excluding loans and advances to central banks and credit institutions.

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio* on the basis of loan origination date as at 31 December 2017

Table B

Loan origination date**	Total loan portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	357.566	4.539	3.744	206.884	3.888	2.920	52.658	37	336	98.024	614	488
1 - 2 years	237.407	11.270	9.359	157.278	10.031	8.311	2.918	357	359	77.211	882	689
2 - 3 years	249.287	33.908	19.810	177.994	31.488	19.185	1.846	-	13	69.447	2.420	612
3 - 5 years	132.292	66.797	40.819	81.324	53.259	32.235	1.136	177	37	49.832	13.361	8.547
5 - 7 years	490.632	280.786	156.572	318.050	197.032	110.886	6.230	3.880	2.209	166.352	79.874	43.477
7 - 10 years	1.156.375	786.688	451.711	730.224	536.940	293.546	14.688	6.509	2.184	411.463	243.239	155.981
Over 10 years	1.425.085	977.653	606.159	926.166	631.800	380.033	25.433	18.109	10.679	473.486	327.744	215.447
Total	4.048.644	2.161.641	1.288.174	2.597.920	1.464.438	847.116	104.909	29.069	15.817	1.345.815	668.134	425.241

*Excluding loans and advances to general governments.

**Loan origination date is defined as the contractual loan origination date for each account. For restructured loans the origination date was derived based on the origination date of the original loan that was restructured.

Notes to the Financial Statements

17. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio* on the basis of loan origination date as at 31 December 2016

Table B

Loan origination date**	Total loan portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	291.612	9.743	7.189	205.522	8.843	6.288	3.301	29	52	82.789	871	849
1 - 2 years	275.474	34.253	10.490	197.731	33.473	9.955	2.070	1	25	75.673	779	510
2 - 3 years	31.567	5.730	3.435	14.505	4.313	2.650	43	8	7	17.019	1.409	778
3 - 5 years	319.443	160.793	87.989	201.000	120.681	66.153	4.949	1.130	235	113.494	38.982	21.601
5 - 7 years	783.376	483.336	245.082	509.128	357.020	178.581	10.336	2.937	1.903	263.912	123.379	64.598
7 - 10 years	1.416.757	997.590	524.505	920.610	682.462	342.008	34.024	20.730	11.469	462.123	294.398	171.028
Over 10 years	1.180.441	812.421	495.380	821.487	565.685	335.221	11.647	6.679	3.827	347.307	240.057	156.332
Total	4.298.670	2.503.866	1.374.070	2.869.983	1.772.477	940.856	66.370	31.514	17.518	1.362.317	699.875	415.696

*Excluding loans and advances to general governments.

**Loan origination date is defined as the contractual loan origination date for each account. For restructured loans the origination date was derived based on the origination date of the original loan that was restructured.

Notes to the Financial Statements

18. DEBT SECURITIES

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Securities held to maturity				
Listed	146.399	47.214	146.399	47.214
Securities classified as loans and receivables				
Listed	193.260	299.360	193.260	299.360
Securities available for sale				
Listed	679.243	802.558	678.431	796.130
	1.018.902	1.149.132	1.018.090	1.142.704

The analysis of Debt securities is based on their remaining contractual maturity as at 31 December:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Within three months	70.829	133.480	70.829	129.026
Between three months and one year	111.183	161.769	111.183	161.276
Between one year and five years	293.939	369.218	293.594	368.498
Over five years	542.951	484.665	542.484	483.904
	1.018.902	1.149.132	1.018.090	1.142.704

Analysis of Debt securities by sector:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Concentration by sector:				
Governments	729.854	781.665	729.042	779.238
Banks	40.015	61.642	40.015	61.642
Other sectors	249.033	305.825	249.033	301.824
	1.018.902	1.149.132	1.018.090	1.142.704

As at 31 December 2017 the Group's exposure in Cyprus Government Bonds amounted to €678.475 thousand (31 December 2016: €643.188 thousand), and as per Moody's their credit ratings are rated at Ba3.

The category "Other sectors" mainly consists of debt securities of supranational organisations.

The Group closely monitors developments in the international markets so that any measures needed are promptly taken to reduce credit risk.

The monitoring of exposures in countries of high risk is centralised through systems that fully and on an ongoing basis cover all material exposures to these countries such as interbank placements, debt securities, other investments, etc. Also, maximum acceptable levels are specified according to the rankings of the countries and taking into account their credit ratings, in addition to political, economic and other factors.

Notes to the Financial Statements

18. DEBT SECURITIES (continued)

Movement of provision for impairment in value of investment in debt securities:

	The Group and the Bank	
	2017	2016
	€'000	€'000
	Securities available for sale	Securities available for sale
Provisions for impairment		
Balance 1 January	-	74
Reversal of provision	-	(74)
Balance 31 December	-	-

19. RECLASSIFICATION OF DEBT SECURITIES

On 1 January 2009, the Group proceeded with a review of its intention for the holding of debt securities and consequently of its policy for classifying them under the various categories. As a result of this review, a number of debt securities, which were included in the held for trading and available for sale categories, were reclassified to the held to maturity and loans and receivables categories. In accordance with the provisions of the amended IAS 39, the Group had reclassified certain available for sale debt securities to loans and receivables, in view of the fact that there was no active market for these debt securities and the Group did not have the intention to sell these securities in the foreseeable future. For the years 2010 to 2016 as well as for the year ended 31 December 2017, there has been no other reclassification of debt securities in other categories.

All reclassified held for trading debt securities and all reclassified available for sale debt securities matured.

On 1 January 2009, the Group reclassified certain available for sale debt securities, that intended to hold to maturity, to the held to maturity category. The carrying amount of these debt securities transferred on 1 January 2009 amounted to €1.019 million. On 31 December 2016 the carrying value of these remaining bonds amounted to nil since all bonds matured.

As a result of the above decision, for the year ended 31 December 2017, an amount of €74 thousand (31 December 2016: €733 thousand), being amortisation of revaluation of reclassified debt securities available for sale, was transferred from the investment revaluation reserve to the income statement. This amount is the final since all bonds have matured.

20. EQUITY SECURITIES AND COLLECTIVE INVESTMENT UNITS

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Securities held for trading				
Listed securities	450	293	450	293
Securities available for sale				
Listed securities	1.313	1.352	1.313	1.352
Provisions for impairment	(370)	(370)	(370)	(370)
	943	982	943	982
Unlisted securities	8.808	8.252	8.532	7.974
Provisions for impairment	(970)	(1.024)	(694)	(746)
	7.838	7.228	7.838	7.228
Collective investment units	20.806	7.505	-	-
Total securities available for sale	29.587	15.715	8.781	8.210
	30.037	16.008	9.231	8.503

Notes to the Financial Statements

20. EQUITY SECURITIES AND COLLECTIVE INVESTMENT UNITS (continued)

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Concentration by sector:				
Securities held for trading				
Other sectors	<u>450</u>	<u>293</u>	<u>450</u>	<u>293</u>
Securities available for sale				
Collective investments units	<u>20.806</u>	<u>7.505</u>	<u>-</u>	<u>-</u>
Other sectors	<u>8.781</u>	<u>8.210</u>	<u>8.781</u>	<u>8.210</u>
	<u>29.587</u>	<u>15.715</u>	<u>8.781</u>	<u>8.210</u>
	<u>30.037</u>	<u>16.008</u>	<u>9.231</u>	<u>8.503</u>

Unlisted securities available for sale include the Bank's investment in JCC Payment Systems Ltd of €5.021 thousand (31 December 2016: €4.894 thousand). In determining the fair value of the Bank's investment in the unlisted company JCC Payment Systems Ltd a valuation method based on the company's net assets was used.

Unlisted securities available for sale also include the Bank's stakeholding of Series C Visa Inc. shares convertible into Class A Common Stock which are valued based on the stock price of the underlying shares on each reporting date. Due to the conversion of the shares taking place on the twelfth anniversary of the closing date of the agreement (21 June 2016) after settling any unresolved and outstanding cover claims, it was considered prudent to apply a haircut of 50% on the calculated value of the shares. As at 31 December 2017, the value of the shares was estimated at €2.531 thousand (31 December 2016: €2.109 thousand).

During 2017, the Group continued investing in collective investments units (ETFs) which are shares/units in well diversified investments funds.

Movement of provision for impairment in the value of investment in shares:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Provisions for impairment				
Balance 1 January	<u>1.394</u>	<u>1.380</u>	<u>1.116</u>	<u>1.102</u>
Exchange difference	<u>(54)</u>	<u>14</u>	<u>(52)</u>	<u>14</u>
Balance 31 December	<u>1.340</u>	<u>1.394</u>	<u>1.064</u>	<u>1.116</u>

Notes to the Financial Statements

21. INVESTMENTS IN SUBSIDIARY COMPANIES

Investments in subsidiary companies represent the cost of acquisition of shares or the cost of incorporation/investment net of any provision for impairment of investment, where applicable, in the following subsidiary companies:

	Line of Business	Country of operation and registration	Ownership %	Number of shares (thousand)	The Bank	
					2017 €'000	2016 €'000
Hellenic Bank (Investments) Ltd	Investment banking, asset management and brokerage	Cyprus	100	3.750	4.309	4.309
Hellenic Bank Trust and Finance Corporation Ltd	Financing Services	Cyprus	100	50	94	94
Pancyprian Insurance Ltd	General Insurance	Cyprus	99,96	15.700	32.423	32.423
Hellenic Alico Life Insurance Company Ltd	Life Insurance	Cyprus	72,50	725	1.239	1.239
Hellenic Insurance Agency Ltd	Insurance Intermediation	Cyprus	100	50	86	86
D4A2 Ltd	Investment holdings company	Cyprus	100	570	145.400	53.470
					183.551	91.621

On 28 November 2016 the Board of Directors of Hellenic Bank (Investments) Ltd decided to discontinue all its business activities, which primarily relate to retail brokerage services. Based on this decision, on 17 February 2017 Hellenic Bank (Investments) Ltd business activities were terminated.

The Bank, as part of its non-performing exposures management, is entering into a number of debt-to-asset swap transactions. Assets acquired in satisfaction of debt are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs). For liquidation optimisation the SPVs are owned either directly by the Bank or indirectly through a wholly owned holding company (D4A2 Ltd).

At 31 December 2017, D4A2 Ltd was the holding company of 34 wholly owned SPVs established or acquired to hold assets acquired or that will be acquired in satisfaction of debt (at 31 December 2016: D4A2 Ltd was the holding company of 25 wholly owned SPVs). As at 31 December 2017, 3 out of the 34 SPVs were dormant. For further details on D4A2 Ltd refer to Note 26.

22. INVESTMENT IN ASSOCIATE COMPANY

Within the framework of the Bank's "Fix" strategy and the efforts of tackling assets quality, the Bank signed an agreement with APS Holding a.s (APS Holding) in January 2017 for the management of real estate assets and servicing of the NPEs portfolio. The agreement entailed the disposal of the operations of the Bank's Arrears Management Division (AMD) to a newly established entity APS Debt Servicing Cyprus Ltd (APS Cyprus), while the ownership of the real estate and loan portfolio remains with the Bank. The new entity is owned 51% by APS Holding and 49% by Hellenic Bank. The completion of the transaction and the transfer of business was effected on 30 June 2017 while APS Cyprus commenced operations on 3 July 2017. By creating the first debt servicing and real estate asset management platform in the Cypriot market, the Bank will be able to effectively deal with its Non performing exposures (NPEs) in an accelerated and effective way through leveraging on the knowhow and expertise of APS Holding. Furthermore, it will allow the Bank to better allocate its resources on managing and growing the performing loan book by using its excess liquidity to the benefit of the market.

Notes to the Financial Statements

22. INVESTMENT IN ASSOCIATE COMPANY (continued)

APS Cyprus acquired the operations of the Bank's internal AMD, including the necessary resources to independently carry out the servicing of NPLs and REO portfolio. Simultaneously, the Bank has executed a 10-year service level agreement with APS Cyprus for the management of the Bank's NPLs and REO Portfolio. It is noted that the Bank retains the ownership of the said NPLs and REO portfolio. The contract was priced at arms' length basis following a two stage competitive auction process.

APS Cyprus has assumed all operating expenses associated with the management of the Bank's NPLs and REO portfolio including but not limited to the costs of payroll, IT licenses, processes, products, services and other operations related overheads. 129 employees from the Bank's AMD moved to APS Cyprus while additional resources, expertise and knowhow were brought in as needed to further enhance the capabilities and capacity of the operation.

NPLs with a value of approximately €2,1 billion and REO portfolio with a market value of approximately €200 million are managed by APS Cyprus in consideration for an administration fee payable by the Bank. The administration fee paid to APS Cyprus comprises of both a fixed and a variable element. The level of fees payable to APS Cyprus varies according to the progress of collections with the majority of the fees being driven by the successful resolution of the portfolio.

Gain on disposal of the operations of the Bank's AMD:

	€'000
Cash consideration	13.726
Fair value of Deferred cash consideration	<u>6.345</u>
Total consideration	20.071
Less: Bank's capital injection to APS Cyprus	<u>(6.725)</u>
	13.346
Less: 51% of the carrying amount of tangible assets sold	<u>(42)</u>
	13.304
Add: Re-measurement of investment in associate as per IFRS 10	<u>6.686</u>
	19.990
Less: Expenses directly relating to the transaction	<u>(978)</u>
Net gain from the transaction	<u>19.012</u>

Deferred installments amounting in total to the nominal value of €6.863 thousand will be paid by APS Debt Servicing Cyprus on an annual basis in equal installments of €980 thousand each, during a period of 7 years from the date of acquisition. Payments will take place on the first business day of each twelfth month following the acquisition date.

For the calculation of the fair value of deferred consideration a discount rate of 2% p.a. was used. As at 31 December 2017 the carrying amount of the deferred consideration was €6.408 thousand.

Movement in the investment in associate company:

On completion of the transaction the Bank recognised an investment in associate based on the fair value of its retained interest in the newly established entity according to the provisions of the IFRS 10 amounting to €6.811 thousand.

	€'000
Initial recognition of investment in associate	6.811
Share of profit of investment in associate	<u>789</u>
Balance 31 December 2017	<u>7.600</u>

Notes to the Financial Statements

22. INVESTMENT IN ASSOCIATE COMPANY (continued)

The main financial highlights of the associate company as at 31 December 2017:

	€'000
Total assets	22.064
Total liabilities	<u>(6.552)</u>
Net assets	<u>15.512</u>

Transactions between the associate company and the Group recognised in the income statement for the year ended 31 December 2017:

	€'000
Servicer's administration fees (including VAT)	<u>(9.229)</u>
License to use services	<u>233</u>
Recharge of expenses	<u>(311)</u>

License to use services relate to the use of premises, parking spaces and services provided by the Bank to APS Cyprus.

Balances between associate company and the Group for the year ended 31 December 2017:

	€'000
Deferred cash consideration receivable by the Bank	<u>6.408</u>
Deposits held with the Bank	<u>(1.660)</u>
Unutilised overdraft limit	<u>500</u>
Servicer's administration fees payable by the Group (including VAT)	<u>(3.279)</u>

23. PROPERTY, PLANT AND EQUIPMENT

The Group	Land and buildings	Plant and equipment	Total
	2017	2017	2017
	€'000	€'000	€'000
Cost or valuation			
1 January	87.395	65.391	152.786
Additions	38	6.716	6.754
Disposals/transfers	(463)	(2.380)	(2.843)
Transfer to investment property (refer to Note 26)	(5.350)	-	(5.350)
Revaluation of land and buildings	3.636	-	3.636
31 December	<u>85.256</u>	<u>69.727</u>	<u>154.983</u>
Depreciation			
1 January	2.504	50.634	53.138
Charge for the year	1.168	4.126	5.294
Disposals/transfers	(105)	(2.318)	(2.423)
Revaluation of land and buildings	(3.567)	-	(3.567)
31 December	<u>-</u>	<u>52.442</u>	<u>52.442</u>
Net book value 31 December	<u>85.256</u>	<u>17.285</u>	<u>102.541</u>

Notes to the Financial Statements

23. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group	Land and buildings 2016 €'000	Plant and equipment 2016 €'000	Total 2016 €'000
Cost or valuation			
1 January	87.975	60.832	148.807
Additions	41	6.177	6.218
Disposals/transfers	-	(1.618)	(1.618)
Transfer to stock of properties held for sale	(621)	-	(621)
31 December	<u>87.395</u>	<u>65.391</u>	<u>152.786</u>
Depreciation			
1 January	1.421	48.822	50.243
Charge for the year	1.099	3.429	4.528
Disposals/transfers	-	(1.617)	(1.617)
Transfer to stock of properties held for sale	(16)	-	(16)
31 December	<u>2.504</u>	<u>50.634</u>	<u>53.138</u>
Net book value 31 December	<u>84.891</u>	<u>14.757</u>	<u>99.648</u>
The Bank	Land and buildings 2017 €'000	Plant and equipment 2017 €'000	Total 2017 €'000
Cost or valuation			
1 January	81.212	62.799	144.011
Additions	-	6.578	6.578
Disposals/transfers	(327)	(2.347)	(2.674)
Transfer to investment property (refer to Note 26)	(5.937)	-	(5.937)
Revaluation of land and buildings	4.017	-	4.017
31 December	<u>78.965</u>	<u>67.030</u>	<u>145.995</u>
Depreciation			
1 January	2.325	48.196	50.521
Charge for the year	1.040	4.059	5.099
Disposals/transfers	(7)	(2.251)	(2.258)
Revaluation of land and buildings	(3.358)	-	(3.358)
31 December	<u>-</u>	<u>50.004</u>	<u>50.004</u>
Net book value 31 December	<u>78.965</u>	<u>17.026</u>	<u>95.991</u>
The Bank	Land and buildings 2016 €'000	Plant and equipment 2016 €'000	Total 2016 €'000
Cost or valuation			
1 January	81.171	58.253	139.424
Additions	41	6.145	6.186
Disposals/transfers	-	(1.599)	(1.599)
31 December	<u>81.212</u>	<u>62.799</u>	<u>144.011</u>
Depreciation			
1 January	1.283	46.415	47.698
Charge for the year	1.042	3.380	4.422
Disposals/transfers	-	(1.599)	(1.599)
31 December	<u>2.325</u>	<u>48.196</u>	<u>50.521</u>
Net book value 31 December	<u>78.887</u>	<u>14.603</u>	<u>93.490</u>

Land and buildings were revalued at 31 December 2017, by independent qualified valuers on a market value basis for their existing use.

Notes to the Financial Statements

23. PROPERTY, PLANT AND EQUIPMENT (continued)

The cost and net book value on a historic cost basis of the freehold land and buildings as at 31 December 2017 amounted to €63.524 thousand (31 December 2016: €70.921 thousand) and €55.186 thousand (31 December 2016: €63.091 thousand) respectively for the Group, and to €60.825 thousand (31 December 2016: €66.964 thousand) and €52.507 thousand (31 December 2016: €59.176 thousand) respectively for the Bank.

The cost of branches under renovation, which are included under plant and equipment, as at 31 December 2017 for the Group and the Bank amounted to €588 thousand (31 December 2016: €957 thousand).

As at 31 December 2017 the value of the revalued freehold land not subject to depreciation amounted to €31.133 thousand (31 December 2016: €30.237 thousand) for the Group and €29.958 thousand (31 December 2016: €29.107 thousand) for the Bank.

24. INTANGIBLE ASSETS

The Group	Computer software 2017 €'000	Goodwill 2017 €'000	Total 2017 €'000
Cost			
1 January	31.298	25.231	56.529
Additions	10.536	32	10.568
Disposals	(16)	-	(16)
31 December	<u>41.818</u>	<u>25.263</u>	<u>67.081</u>
Amortisation or impairment losses			
1 January	19.566	10.437	30.003
Charge for the year	2.789	33	2.822
Disposals	(16)	-	(16)
Impairment	-	18	18
31 December	<u>22.339</u>	<u>10.488</u>	<u>32.827</u>
Net book value 31 December	<u>19.479</u>	<u>14.775</u>	<u>34.254</u>

On 31 December 2017, the Group assessed whether there is any impairment of goodwill arising on the acquisition of Pancyprian Insurance Ltd, by calculating the estimated fair value of the company, based on the future cash flows discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the investments. As a result of this assessment, no impairment of goodwill arose.

During 2017 Present value of acquired in-force business (PVIFs) of value of €32 thousand (31 December 2016: €101 thousand) were acquired by Pancyprian Insurance Ltd.

Notes to the Financial Statements

24. INTANGIBLE ASSETS (continued)

The Group	Computer software 2016 €'000	Goodwill 2016 €'000	Total 2016 €'000
Cost			
1 January	25.967	25.130	51.097
Additions	5.465	101	5.566
Disposals	(134)	-	(134)
31 December	<u>31.298</u>	<u>25.231</u>	<u>56.529</u>
Amortisation or impairment losses			
1 January	18.151	10.306	28.457
Charge for the year	1.548	25	1.573
Disposals	(133)	-	(133)
Impairment	-	106	106
31 December	<u>19.566</u>	<u>10.437</u>	<u>30.003</u>
Net book value 31 December	<u>11.732</u>	<u>14.794</u>	<u>26.526</u>

The Bank	Computer software 2017 €'000
Cost	
1 January	30.810
Additions	9.398
31 December	<u>40.208</u>
Amortisation or impairment losses	
1 January	19.147
Charge for the year	2.766
31 December	<u>21.913</u>
Net book value 31 December	<u>18.295</u>

The Bank	Computer software 2016 €'000
Cost	
1 January	25.540
Additions	5.404
Disposals	(134)
31 December	<u>30.810</u>
Amortisation or impairment losses	
1 January	17.757
Charge for the year	1.524
Disposals	(134)
31 December	<u>19.147</u>
Net book value 31 December	<u>11.663</u>

Notes to the Financial Statements

25. DEFERRED TAX ASSET

Deferred taxation arose as follows:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Property revaluation differences and differences between depreciation and capital allowances	-	1	-	-
Tax losses	12.286	8.464	12.286	8.464
	12.286	8.465	12.286	8.464

Movement of Deferred tax asset:

2017	Balance 1 January €'000	The Group Effect on income statement €'000	Balance 31 December €'000
Tax losses	8.464	3.822	12.286
	8.465	3.821	12.286

2016	Balance 1 January €'000	Effect on income statement €'000	Balance 31 December €'000
Tax losses	58.093	(49.629)	8.464
	58.094	(49.629)	8.465

2017	Balance 1 January €'000	The Bank Effect on income statement €'000	Balance 31 December €'000

2016	Balance 1 January €'000	Effect on income statement €'000	Balance 31 December €'000

An analysis of accumulated tax losses is presented below:

	Tax losses €'000	Tax losses for which deferred tax was derecognised €'000	Tax losses for which deferred tax was recognised €'000
Expiring within 1 year	14.754	14.754	-
Expiring within 3 years	379.248	306.742	72.506
Expiring between 4 and 5 years	25.784	-	25.784
	419.786	321.496	98.290

Notes to the Financial Statements

25. DEFERRED TAX ASSET (continued)

The carrying amount of the deferred tax asset is based on judgements of the Management of the Bank on its ability to generate future taxable profits. These judgements are based on available information including historical data, improved macroeconomic estimates, the reduction in deposit rates, the stabilisation of the non-performing loans, the Bank's impairment process and the results of operations.

The applicable tax rate is 12,5%. The tax losses relate to the same jurisdiction with the deferred tax asset.

26. OTHER ASSETS

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Prepaid expenses	2.179	2.370	2.172	2.364
Fair value of derivatives (refer to Note 35)	229	10.926	229	10.926
Assets held to cover liabilities of unit linked funds	15.396	14.230	-	-
Assets held for sale	7.161	-	7.161	40.625
Stock of properties held for sale	148.186	117.695	10.637	24.029
Debtors and other receivables	53.295	34.098	26.232	12.234
Investment property	5.350	-	5.937	-
	231.796	179.319	52.368	90.178

Stock of properties held for sale

The stock of properties include residential, offices and other commercial properties, industrial buildings and land (fields and plots). As at 31 December 2017, properties were revalued by independent professional valuers based on open market value for their existing use. The fair value of these assets for the Group amounted to €203.527 thousand (31 December 2016: €142.652 thousand) and for the Bank €12.088 thousand (31 December 2016: €26.134 thousand).

The Bank, as part of its non-performing exposures management, is entering into a number of debt-to-asset swap transactions. Assets acquired in satisfaction of debt are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs) which are formed with the purpose of holding and managing these immovable properties. For liquidation optimisation the SPVs are owned either directly by the Bank or indirectly through a wholly owned holding company (D4A2 Ltd). For properties held through SPVs and for which the titles have not yet been issued, the ownership is ensured via filing of the Sales/Purchases agreement with the Land Registry. As at 31 December 2017, properties held for sale indirectly through SPVs amounted to €135,5 million (31 December 2016: €50,9 million).

Assets held for sale

During 2015 the Bank set up a wholly owned subsidiary Anolia Holdings Ltd, whose main activity was the ownership and management of immovable property and was classified under assets held for sale. The fair value of the investment as at 31 December 2016 amounted to €40.625 thousand. During the first quarter of 2017, the Bank disposed its 100% shareholding in Anolia Holdings Ltd. The investment was sold for €42.683 thousand resulting to a net gain of €2.058 thousand included in other income.

During the fourth quarter of 2017, another step within the context of the Bank's "Fix" strategy, was the agreement to sell a non-performing loan portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange ("the Transaction"/ the NPE trade agreement).

The gross contractual outstanding balance of the portfolio was €145 million comprising of 1.158 borrowers and 1.977 facilities (in each case as at September 2017). The NPE trade agreement is not expected to have a material impact on the income statement and capital position of the Bank due to existing provisions taken against these assets.

Notes to the Financial Statements

26. OTHER ASSETS (continued)

The NPE trade agreement is in line with the European Central Bank and International Monetary Fund guidelines on the management of non-performing loans. In addition to organic reduction of the problematic portfolio, the Bank continues to explore the process of de-risking its non-performing exposures through portfolio disposals and other transactions.

The finalisation of the transaction is subject to the completion of the required procedures under the relevant legislation, the obtaining of applicable approvals and clearances from the relevant regulatory authorities and is targeted to be achieved during the second quarter of 2018.

The Group's movement of assets from customers' debt settlement held for sale is presented as follows:

	Banking & Financial services €'000	Insurance Services €'000	Total €'000
1 January 2017	115.477	793	116.270
Additions	94.986	-	94.986
Disposals	(64.144)	-	(64.144)
Impairment losses	(262)	(63)	(325)
31 December 2017	<u>146.057</u>	<u>730</u>	<u>146.787</u>

	Banking & Financial services €'000	Insurance Services €'000	Total €'000
1 January 2016	69.655	828	70.483
Additions	51.510	-	51.510
Disposals	(4.698)	-	(4.698)
Impairment losses	(990)	(35)	(1.025)
31 December 2016	<u>115.477</u>	<u>793</u>	<u>116.270</u>

Debtors and other receivables

As at 31 December 2017, debtors and other receivables of the Group include, among other, an amount of €16.167 thousand for the disposal of properties held by the Group (Bank: €12.090 thousand) and deferred consideration of €6.408 receivable from APS Cyprus (refer to Note 22).

Investment property

The use of some properties of the Group changed from owner-occupied to investment property. The properties were remeasured to fair value and reclassified during the year ended 31 December 2017 from property, plant and equipment to other assets.

Assets held to cover liabilities of unit linked funds

Assets held to cover liabilities of unit linked funds comprise of:

	The Group	
	2017 €'000	2016 €'000
Deposits	3.740	3.456
Government bonds	500	434
Equity securities	<u>11.156</u>	<u>10.340</u>
	<u>15.396</u>	<u>14.230</u>

Notes to the Financial Statements

27. DEPOSITS BY BANKS

	The Group and the Bank	
	2017	2016
	€'000	€'000
Interbank accounts	73.243	55.132
Cheque clearing	24.105	19.149
Money Market deposits	79.007	26.371
	<u>176.355</u>	<u>100.652</u>

The below analysis of deposits by banks is based on their remaining contractual maturity as at 31 December.

	The Group and the Bank	
	2017	2016
	€'000	€'000
On demand	97.348	74.309
Within three months	17.715	16.821
Between three months and one year	61.292	9.522
	<u>176.355</u>	<u>100.652</u>

On 31 December 2017, an amount of €4.107 thousand (31 December 2016: €12.794 thousand) is pledged as collateral on deposits by banks, being common practice among financial institutions.

28. CUSTOMER DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	The Group and the Bank	
	2017	2016
	€'000	€'000
Demand deposits	2.862.430	3.043.347
Savings deposits	632.878	613.996
Notice deposits	357.021	210.532
Time deposits	1.955.796	2.243.213
	<u>5.808.125</u>	<u>6.111.088</u>

The below analysis of customer deposits and other customer accounts is based on their remaining contractual maturity as at 31 December:

	The Group and the Bank	
	2017	2016
	€'000	€'000
On demand	3.428.838	3.687.876
Within three months	1.295.312	1.132.639
Between three months and one year	937.058	1.183.822
Between one year and five years	144.537	106.751
Over five years	2.380	-
	<u>5.808.125</u>	<u>6.111.088</u>

Notes to the Financial Statements

29. DEFERRED TAX LIABILITY

Deferred taxation arose as follows:

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Property revaluation differences and differences between depreciation and capital allowances	2.498	1.975	2.351	1.792
Other temporary differences	-	5	-	8
	<u>2.498</u>	<u>1.980</u>	<u>2.351</u>	<u>1.800</u>

Movement of Deferred tax liability:

2017

	The Group			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and differences between depreciation and capital allowances	1.975	236	287	2.498
Other temporary differences	5	-	(5)	-
	<u>1.980</u>	<u>236</u>	<u>282</u>	<u>2.498</u>

2016

	The Group			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and differences between depreciation and capital allowances	1.467	12	496	1.975
Other temporary differences	5	-	-	5
	<u>1.472</u>	<u>12</u>	<u>496</u>	<u>1.980</u>

2017

	The Bank			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and differences between depreciation and capital allowances	1.792	226	333	2.351
Other temporary differences	8	-	(8)	-
	<u>1.800</u>	<u>226</u>	<u>325</u>	<u>2.351</u>

2016

	The Bank			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and differences between depreciation and capital allowances	1.329	9	454	1.792
Other temporary differences	8	-	-	8
	<u>1.337</u>	<u>9</u>	<u>454</u>	<u>1.800</u>

Notes to the Financial Statements

30. OTHER LIABILITIES

	The Group		The Bank	
	2017	2016	2017	2016
	€'000	€'000	€'000	€'000
Fair value of derivatives (refer to Note 35)	5.212	4.227	5.212	4.227
Accrued expenses	52.166	15.089	49.110	15.021
Liabilities of unit linked funds	15.396	14.230	-	-
Provisions to cover credit risk resulting from commitments and guarantees	11.503	14.823	11.503	14.823
Provisions for pending litigations or complaints and/or claims	8.183	8.019	8.183	8.019
Other accounts payable	59.973	55.536	18.125	16.663
	152.433	111.924	92.133	58.753

Accrued expenses

Accrued expenses include an amount of €30,3 million for the Group and €27,6 million for the Bank that relate to cost of the Voluntary early exit scheme paid after the year end (refer to Note 11).

Accumulated Provisions to cover credit risk resulting from commitments and guarantees:

	The Group and the Bank	
	2017	2016
	€'000	€'000
1 January	14.823	21.814
Charge for the year	(3.220)	(7.002)
Exchange difference	(100)	11
31 December	11.503	14.823

Provisions for pending litigations or complaints and/or claims:

	The Group and the Bank	
	2017	2016
	€'000	€'000
1 January	8.019	8.008
Charge for the year	179	149
Provision utilised	(15)	(138)
31 December	8.183	8.019

The amounts recognised as provisions are the best estimates of the expenditure required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the facts and circumstances of any pending litigations or complaints and/or claims. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

Notes to the Financial Statements

30. OTHER LIABILITIES (continued)

Commission for the Protection of Competition

On 22 May 2017 the Commission for the Protection of Competition (CPC) announced its final decision in respect of the report submitted on 4 January 2010 by FBME Card Services Limited against Hellenic Bank and other banks as well as JCC Payment Systems Limited. In its decision CPC decided, among other, to impose a fine on Hellenic Bank of €1.569.989 for contravening section 6(1)(a) of the Protection of Competition Law 2014 and the corresponding article 102 of the Treaty on the Functioning of the European Union. Hellenic Bank has filed a recourse before the Administrative Court in Cyprus for the annulment of the aforementioned CPC decision. Any resulting liability arising from the imposed fine, is not expected to have a material impact on the financial position of the Group as the Bank has sufficiently provided for it.

31. LOAN CAPITAL

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Tier 1 Capital				
Convertible Capital Securities 1	1.597	1.597	1.597	1.597
Convertible Capital Securities 2	<u>128.070</u>	<u>128.070</u>	<u>128.070</u>	<u>128.070</u>
	<u>129.667</u>	<u>129.667</u>	<u>129.667</u>	<u>129.667</u>
Tier 2 Capital				
Non-Convertible Bonds 2018	<u>10.000</u>	<u>10.000</u>	<u>10.000</u>	<u>10.000</u>
	<u>10.000</u>	<u>10.000</u>	<u>10.000</u>	<u>10.000</u>
	<u>139.667</u>	<u>139.667</u>	<u>139.667</u>	<u>139.667</u>

Full details/terms of issue of the Bonds and Securities of the Bank are included in the Prospectus and the Supplementary Prospectuses of each issue.

Tier 1 Capital

Convertible Capital Securities 1 (CCS1)

The Convertible Capital Securities 1 are perpetual securities with no maturity date. Under the terms of their issue, they bear an annual fixed interest rate of 11% which is payable on a quarterly basis at the end of each Interest Payment period. Interest payment dates are set to be the 31 March, 30 June, 30 September and 31 December.

The Bank may, at its sole discretion, partially or fully cancel the interest payment on non-cumulative basis at any time considered necessary or desirable and for any reason, for an unlimited time period and without any restriction to the Bank.

The interest payment will be paid by the Available Distributable Items of the Bank.

Without this affecting the right of the Bank on cancelling the interest payment at its sole discretion, as mentioned above, the mandatory cancellation of the interest payment will apply in cases where:

- (i) the Bank does not possess the necessary Available Distributable Items for such an interest payment on CCS1, or
- (ii) the Bank or the Group is in breach of applicable laws, regulations, requirements, guidelines and policies regarding the Bank's or the Group's capital requirements, or
- (iii) there is a requirement by the Central Bank of Cyprus at its sole discretion, as the competent authority, to cancel all or part of an interest payment.

Interest cancellation will not constitute an event of default, will not impose any restrictions on the Bank and will not grant the right to CCS1 holders to apply for the liquidation or resolution of the Bank. The Bank may use any cancelled interest payment without restrictions in order to meet its obligations, as they fall due.

Notes to the Financial Statements

31. LOAN CAPITAL (continued)

The CCS1 are unsecured and subordinated obligations of the Bank and are classified as Tier 1 capital securities in accordance with the Directive of Capital Requirements and Large Exposures (as amended, revised or replaced) and any relevant European Union Directives and Regulations as applied in Cyprus or any other requirements that may apply.

The rights and claims of CCS1 holders:

- (i) are subordinated to the claims of the Bank's creditors, which are:
 - depositors or other creditors whose claims are not subordinated to claims of the depositors,
 - creditors whose claims are subordinated, except those whose claims rank pari passu with the claims of CCS1 holders,
 - Bank bondholders that are classified as Capital Tier 2 (Tier 2), whose claims are subordinated,
 - holders of securities that are issued or guaranteed by the Bank and ranked in higher priority than the CCS1.
- (ii) Rank pari passu with the claims of other existing issues of the Bank (Capital Securities 2003 and NCPCS) and any other future bond and other securities issues of the Bank that are classified as Tier 1, excluding ordinary shares.
- (iii) They have priority only in respect of the Bank's ordinary shareholders.

Under the provisions of the Prospectus dated 30 September 2013 the Bank may, at its sole discretion, redeem, following a notification of CCS1 holders and the Trustee, at par including accrued interest, excluding any cancelled interest, the total or part of the CCS1, on 31 October 2018 or on any interest payment date after that date, provided that the financial position and/or the solvency of the Bank and/or the Group are not adversely affected by such a redemption and after approval by the Central Bank of Cyprus or other competent supervisory authority. In case of redemption of part of the CCS1, the redemption will apply for all holders of CCS1 in proportion to the CCS1 they hold.

The CCS1 are also redeemable at the sole discretion of the Bank, at or after their issuance (after approval of the Central Bank of Cyprus or other competent authority and given that events or conditions referred to in (i) or/and (ii) below, as applicable, could not reasonably be anticipated by the Bank at the time of the issue of CCS1 and deemed by the Central Bank of Cyprus that such changes in (i) below are considered almost certain), in whole and not partly, at par including accrued interest not cancelled:

- (i) when as a result of any change or proposed change in Laws or Regulations of the Republic of Cyprus, the relevant Directives, Regulations or Laws in relation to the Credit Institutions or change or proposed change in the application or official interpretation, the CCS1 cease to be considered:
 - (a) Tier 1 Capital and/or
 - (b) appropriate funds for inclusion in the calculation of capital requirements as defined by Troika (as long as the Hellenic Bank or the Group is required to maintain Common Equity Tier 1 ratio equal to or greater than 9%).
- (ii) if the Bank shall not be entitled to claim any deduction in the calculation of tax liabilities in Cyprus with respect to any interest payment on the next interest payment date or if the amount of any deduction for the Bank would be greatly reduced.

All CCS1 redeemed by the Bank will be cancelled and will not be reissued or resold. The Bank shall cease to have any obligations in regards to any CCS1 that may be cancelled.

On 9 December 2013, in accordance with the above provisions, and at its sole discretion, the Bank announced the mandatory cancellation of the interest payment as a result of the inexistence of the required Available Distributable Items for such interest payment. The mandatory cancellation of interest payment will be valid unless the Bank informs the holders of the CCS1 otherwise.

Any redemption of CCS1 will be subject to prior approval from the Central Bank of Cyprus, as the supervisory authority and/or any other competent authority.

Notes to the Financial Statements

31. LOAN CAPITAL (continued)

The CCS1 will mandatorily and irrevocably be converted into ordinary shares, if any of the following occur:

- (a) The Common Equity Tier 1 ratio of the Bank or the Group after 31 October 2013 or if this date is amended by the Central Bank of Cyprus, after this new date, has decreased, or remains below 9% (as long as Hellenic Bank or the Group is required, by the Central Bank of Cyprus, to maintain its Common Equity Tier 1 ratio equal to or greater than 9%).
- (b) The Common Equity Tier 1 ratio of the Bank or the Group at any time decreases or remains below the applicable percentage required, by the Central Bank of Cyprus, to be maintained by the Bank or the Group with maximum ratio of Common Equity Tier 1 of 9%.
- (c) The Common Equity Tier 1 ratio of the Bank or the Group is decreased below 5,125%.
- (d) If any Non-Viability Event occurs for the Bank or the Bank may be subject to state aid measures.

The conversion amount will be, as applicable, (i) the amount required to restore the Common Equity Tier 1 ratio of the Bank and/or the Group to 5,125% and/or to 9% (for the latter, as long as Hellenic Bank or the Group is required to maintain the Common Equity Tier 1 ratio equal to or greater than 9%) and/or the applicable ratio that is required, at any time, from the Central Bank of Cyprus with maximum ratio of Common Equity Tier 1 Capital of 9% or (ii) the amount required so that Hellenic Bank is considered viable by the Central Bank of Cyprus, in each case up to the entire nominal amount of CCS1. Any conversion will apply pro rata to the outstanding balance of CCS1.

In accordance with the provisions of the Prospectus dated 30 September 2013:

The CCS1 will be converted into new fully paid ordinary shares of Hellenic Bank at the Mandatory Conversion Price, which will be equal to the higher of:

- (i) the Mandatory Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
- (ii) the minimum conversion price of €0,10 and,
- (iii) the nominal value of the Bank's ordinary shares

The CCS1 holders may voluntarily convert them into fully paid ordinary shares of the Bank, at predetermined periods each year at the Voluntary Conversion Price, which will be equal to the higher of:

- (i) the Voluntary Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
- (ii) the minimum conversion price of €0,15 and,
- (iii) the nominal value of the Bank's ordinary shares.

On 28 February 2014, under the provisions of the Prospectus dated 30 September 2013, within the implementation framework of the issue terms of CCS1 and as a result of the formation of the Common Equity Tier 1 ratio of the Group and the Bank being below the minimum required supervisory ratio of 9%, CCS1 of a total value of €85.873.871 were mandatorily and irrevocably converted, without any obligation to obtain the consent of the CCS1 holders, to shares so that the lower of the two, Common Equity Tier 1 Ratio of the Group and the Bank is increased to 9%.

Furthermore, on 29 August 2014 and on 26 October 2014 and as a result of the Common Equity Tier 1 Ratio of the Group and the Bank being below the minimum required supervisory ratio of 8%, as set by the Central Bank's circular dated 29 May 2014, CCS1 of total value of €15.106.520 and €23.804.161 respectively, were mandatorily and irrevocably converted to shares so that, the lower of the two, Common Equity Tier 1 Ratio of the Bank and the Group is increased to 8%.

The mandatory conversion was applied pro rata to the outstanding balance of CCS1 for each investor on the conversion date and the applicable mandatory Conversion Price of CCS1 to shares was set at €0,10. All CCS1 that have been converted into shares were automatically cancelled and any right or obligation derived from the Prospectus ceased to be valid.

The CCS1 are listed on the Cyprus Stock Exchange.

Notes to the Financial Statements

31. LOAN CAPITAL (continued)

Convertible Capital Securities 2 (CCS2)

The Convertible Capital Securities 2 are perpetual securities with no maturity date. Under the terms of their issue, they bear an annual fixed interest rate of 10% which is payable on a quarterly basis at the end of each Interest Payment period. Interest payment dates are set to be the 31 March, 30 June, 30 September and 31 December.

The Bank may, at its sole discretion, partially or fully cancel the interest payment on non-cumulative basis at any time considered necessary or desirable and for any reason, for an indefinite time period and without any restriction to the Bank.

The interest payment will be paid by the Available Distributable Items of the Bank.

Without this affecting the right of the Bank on cancelling the interest payment at its sole discretion, as mentioned above, the mandatory cancellation of the interest payment will apply in cases where:

- (i) the Bank does not possess the necessary Available Distributable Items for such an interest payment on CCS2, or
- (ii) the Bank or the Group is in breach of applicable laws, regulations, requirements, guidelines and policies regarding the Bank's or the Group's capital requirements, or
- (iii) there is a requirement by the Central Bank of Cyprus at its sole discretion, as the competent authority, to cancel all or part of an interest payment.

Interest cancellation will not constitute an event of default, will not impose any restrictions on the Bank and will not grant the right to CCS2 holders to apply for the liquidation or resolution of the Bank. The Bank may use any cancelled interest payment without restrictions in order to meet its obligations, as they fall due.

CCS2 were offered (CCS2 Voluntary Exchange Offer) to the holders of the following securities:

- Bonds due 2016 (ISIN CY0140040110), issued under the issuance terms of the Prospectus dated 11 May 2006,
- Bonds due 2018 issued on 1 September 2008,
- Bonds due 2019 (ISIN CY0140940111) issued on 11 March 2009 under the issuance terms included in the Prospectus dated 18 May 2009 and,
- Capital securities (ISIN CY0048940114) issued on 18 April 2003 under the issuance terms of the Prospectus dated 7 November 2003.

The CCS2 are unsecured and subordinated obligations of the Bank and are classified as Tier I capital securities in accordance with the Directive of Capital Requirements and Large Exposures (as amended, revised or replaced) and any relevant European Union Directives and Regulations as applied in Cyprus or any other requirements that may apply.

The rights and claims of CCS2 holders:

- (i) are subordinated to the claims of the Bank's creditors, which are
 - depositors or other creditors whose claims are not subordinated to claims of the depositors,
 - creditors whose claims are subordinated, except those whose claims rank pari passu with the claims of CCS2 holders,
 - Bank bondholders that are classified as Capital Tier 2 (Tier 2), whose claims are subordinated,
 - Holders of securities that are issued or guaranteed by the Bank and their rank is higher of the rank of CCS2.
- (ii) Rank pari passu with the claims of other existing issues of the Bank (Capital Securities 2003 and NCPCS) and any other future bond and other securities issues of the Bank that are classified as Tier 1, with the exception of the ordinary shares.
- (iii) They have priority only in respect of the Bank's ordinary shareholders.

Notes to the Financial Statements

31. LOAN CAPITAL (continued)

Under the provisions of the Prospectus dated 30 September 2013 the Bank may, at its sole discretion, redeem, following a notification of CCS2 holders and the Trustee, at par including accrued interest, excluding any cancelled interest, the total or part of the CCS2, on 31 October 2018 or on any interest payment date after that date, provided that the financial position and/or the solvency of the Bank and/or the Group are not adversely affected by such a redemption and after approval by the Central Bank of Cyprus or other competent supervisory authority. In case of redemption of part of the CCS2, the redemption will apply for all holders of CCS2 in proportion to the CCS2 they hold.

The CCS2 are also redeemable at the sole discretion of the Bank, at or after their issuance (after approval of the Central Bank of Cyprus or other competent authority and given that events or conditions referred to in (i) or/and (ii) below, as applicable, could not reasonably be anticipated by the Bank at the time of the issue of CCS2 and deemed by the Central Bank of Cyprus that such changes in (i) below are considered almost certain), in whole and not part of, at par including accrued interest not cancelled:

- (i) when as a result of any change or proposed change in Laws or Regulations of the Republic of Cyprus, the relevant Directives, Regulations or Laws in relation to the Credit Institutions or change or proposed change in the application or official interpretation, the CCS2 cease to be considered:
 - (a) Tier 1 capital and/or
 - (b) appropriate funds for inclusion in the calculation of capital requirements as defined by Troika (as long as the Hellenic Bank or the Group is required to maintain Common Equity Tier 1 ratio equal to or greater than 9%).
- (ii) if the Bank shall not be entitled to claim any deduction in the calculation of tax liabilities in Cyprus with respect to any interest payment on the next interest payment date or the amount of any deduction for the Bank would be significantly reduced.

All CCS2 redeemed by the Bank will be cancelled and will not be reissued or resold. The Bank shall cease to have any obligations in regards to any CCS2 that may be cancelled.

On 9 December 2013, in accordance with the above provisions, and at its sole discretion, the Bank announced mandatorily the cancellation of the interest payment as a result of inexistence of the required Available Distributable Items for such interest payment. The mandatory cancellation of interest payment will be valid unless the Bank warns the holders of the CCS2 otherwise.

Any redemption of CCS2 will be subject to prior approval from the Central Bank of Cyprus, as supervisory authority or/and any other competent authority.

The CCS2 will mandatorily and irrevocably be converted into ordinary shares, if any of the following occur:

- (a) The Common Equity Tier 1 ratio of the Bank or the Group after 31 October 2013 or if this date is amended by the Central Bank of Cyprus, after this new date, has decreased, or remains below 9% (as long as Hellenic Bank or the Group is required, by the Central Bank of Cyprus, to maintain its Common Equity Tier 1 ratio equal to or greater than 9%).
- (b) the Common Equity Tier 1 ratio of the Bank or the Group at any time decreases or remains below the applicable percentage required, by the Central Bank of Cyprus, to be maintained by the Bank or the Group with maximum ratio of Common Equity Tier 1 of 9%.
- (c) The Common Equity Tier 1 ratio of the Bank or the Group is decreased below 5,125%.
- (d) If any Non-Viability Event occurs for the Bank or the Bank may be subject to State Aid measures.

The conversion amount will be, as applicable, (i) the amount required to restore the Common Equity Tier 1 ratio of the Bank and/or the Group to 5,125% and/or to 9% (for the latter, as long as Hellenic Bank or the Group is required to maintain the Common Equity Tier 1 ratio equal to or greater than 9%) and/or the applicable ratio that is required, at any time, from the Central Bank of Cyprus with maximum ratio of Common Equity Tier 1 Capital of 9% or (ii) the amount required so that Hellenic Bank is considered viable by the Central Bank of Cyprus, in each case up to the entire nominal amount of CCS2. Any conversion will apply pro rata to the outstanding balance of CCS2.

Notes to the Financial Statements

31. LOAN CAPITAL (continued)

In accordance with the provisions of the Prospectus dated 30 September 2013:

The CCS2 will be converted into new fully paid ordinary shares of Hellenic Bank at the Mandatory Conversion Price, which will be equal to the higher of:

- (i) the Mandatory Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
- (ii) the minimum conversion price of €0,05 and,
- (iii) the nominal value of the Bank's ordinary shares.

The CCS2 holders may voluntarily convert them into fully paid ordinary shares of the Bank, at predetermined periods each year at the "Voluntary Conversion Price", which will be equal to the higher of:

- (i) the Voluntary Reported Market Price, i.e. the average closing price of the last five days of trading of the shares of the Bank on the CSE prior to conversion with 20% discount,
- (ii) the minimum conversion price of €0,15 and,
- (iii) the nominal value of the Bank's ordinary shares.

The CCS2 are listed on the Cyprus Stock Exchange.

Further to the announcement of Hellenic Bank Public Company Ltd dated 31 October 2014, concerning the decision of the Board of Directors of the Bank for the issue of shares via rights issue and based on the provisions of the Prospectus dated 30 September 2013 (the "Prospectus") part IV/B/III paragraph 10 C1 and part IV/C/III paragraph 11 C1, the minimum price of mandatory conversion of the CCS1 was adjusted from €0,10 to €0,08, the minimum price of voluntary conversion of the CCS1 was adjusted from €0,15 to €0,13 as well as the minimum price of mandatory conversion of the CCS2 was adjusted from €0,05 to €0,04 and the minimum price of voluntary conversion of the CCS2 was adjusted from €0,15 to €0,13.

These adjustments became effective from 18 November 2014, the date of the first CSE session that the shares of Hellenic Bank traded ex-rights.

Following the approval of the relevant Special Resolution by the Extraordinary General Meeting which was held on the 27 February 2015, the issued share capital of the Bank, has been consolidated and divided and based on the provisions of the Prospectus dated 30 September 2013, Part IV/B/III paragraph C1 (i) and Part IV/C/III paragraph C1 (i), the following adjustments took place which were effective from the 27 February 2015:

Minimum Price of Mandatory Conversion:

- For CCS1 the price was adjusted from €0,08 to €4,00
- For CCS2 the price was adjusted from €0,04 to €2,00

Minimum Price of Voluntary Conversion:

- For CCS1 the price was adjusted from €0,13 to €6,50
- For CCS2 the price was adjusted from €0,13 to €6,50

As long as the Bank continues to be required to maintain CET1 ratio equal to or greater than 9% pursuant to the provisions of the Prospectus dated 30 September 2013 for the issue of CCS1 and CCS2, each of the CCS1 and CCS2 will be mandatorily converted into ordinary shares of the Bank, if the CET1 ratio of the Bank, on a consolidated basis, decreases or remains below 9% and/or in the event of any other occurrences specified as contingent conversion triggers for mandatory conversion in the Prospectus.

Pursuant to the terms of the Prospectus, CCS1/CCS2 holders may exercise the right to convert the CCS1/CCS2 into ordinary shares, during the periods between 15-31 January and 15-31 July of each year (the "Conversion Period") with the first Conversion Period commencing on 15 January 2016 and the last Conversion Period commencing on 15 July 2023. If a CCS1/CCS2 holder exercises his Right to convert, any interest accrued ceases to be calculated and becomes due until the end of the conversion period during which the holder has exercised voluntary conversion, according to the provisions of Paragraph 10.B.(d) of Part IV/B/III and 11.B.(d) of Part IV/C/III of the prospectus.

Notes to the Financial Statements

31. LOAN CAPITAL (continued)

The first Conversion Period for CCS1/CCS2 commenced on 15 January 2016 and ended on 29 January 2016, the second Conversion Period commenced on 15 July 2016 and ended on 29 July 2016, the third Conversion Period commenced on 16 January 2017 and ended on 31 January 2017 and the fourth Conversion Period commenced on 17 July 2017 and ended on 31 July 2017. During the four conversion periods the Bank did not receive a Voluntary Conversion Application from any CCS1 /CCS2 holder.

Tier 2 Capital

For the purposes of the calculation of the capital base, the following bonds were considered as Tier 2 Capital.

Non-Convertible Bonds 2018

On 1 September 2008, the Bank proceeded with the issue of the Bonds 2018 amounting to €10.000.000. The Bonds mature on 31 August 2018.

Interest on Bonds 2018 is payable in cash every three months, at the end of each interest period. Bonds 2018 bear interest at a floating rate equal to the 3-month Euribor rate applicable at the beginning of each interest period, plus 1,75%. Under the terms of issuance of the bond, if the bonds are not redeemed by the Bank after 1 September 2013, they would bear an additional interest of 1%. Consequently the interest rate applicable subsequent to 1 September 2013 is equal to the 3-month Euribor plus 2,75%.

Bonds 2018 are not secured and in the event of the Bank's liquidation their repayment follows in priority the claims of depositors and other creditors. They have, however, priority over shareholders and Capital Securities holders. Bonds 2018 are not listed on the Cyprus Stock Exchange.

32. SHARE CAPITAL

	The Group and the Bank			
	2017	Number of	2016	Number of
	€'000	shares	€'000	shares
		(thousand)		(thousand)
Authorised				
1.032 million shares €0,50 each	516.000	1.032.000	516.000	1.032.000

	The Group and the Bank			
	2017	Number of	2016	Number of
	€'000	shares	€'000	shares
		(thousand)		(thousand)
Issued				
Fully paid shares				
1 January	99.237	198.475	99.217	198.435
Issue of shares to CEO as part of his variable remuneration package	-	-	20	40
Total issued share capital	99.237	198.475	99.237	198.475

Issued Share Capital

On 24 November 2016 the Bank announced the listing of 40.128 new ordinary shares which were issued to the Chief Executive Officer as part of his variable remuneration package.

As at 31 December 2017, 198.474.712 fully paid shares were in issue, with a nominal value of €0,50 each (2016: 198.474.712 fully paid shares with a nominal value €0,50 each).

Notes to the Financial Statements

33. REVALUATION RESERVES

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Property revaluation reserve				
1 January	29.400	29.740	26.463	26.775
Surplus on revaluation of land and buildings	8.731	-	8.903	-
Deferred taxation on property revaluation	(236)	(12)	(226)	(9)
Transfer to revenue reserve due to excess depreciation	(168)	(317)	(168)	(292)
Transfer to revenue reserve due to disposal of immovable property	(429)	(11)	(429)	(11)
	<u>37.298</u>	<u>29.400</u>	<u>34.543</u>	<u>26.463</u>
Revaluation reserve of available for sale securities				
1 January	8.109	20.753	8.139	20.842
Revaluation surplus/(deficit) of equity securities available for sale	509	(1.471)	571	(1.477)
Revaluation of debt securities available for sale	32.474	1.941	32.365	1.888
Amortisation of revaluation of reclassified debt securities available for sale	(74)	(733)	(74)	(733)
Transfer to the income statement on disposal of investments in equity securities available for sale	-	(12.381)	-	(12.381)
	<u>41.018</u>	<u>8.109</u>	<u>41.001</u>	<u>8.139</u>
Total revaluation reserves 31 December	<u>78.316</u>	<u>37.509</u>	<u>75.544</u>	<u>34.602</u>

The revaluation reserve of available for sale securities at 31 December 2017 consists entirely of revaluation to fair value gains.

34. CONTINGENT LIABILITIES AND COMMITMENTS

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Contingent liabilities				
Acceptances and endorsements	155	272	155	272
Guarantees	292.066	248.039	292.087	248.063
	<u>292.221</u>	<u>248.311</u>	<u>292.242</u>	<u>248.335</u>
Commitments				
Undrawn formal standby facilities	525.083	491.123	525.162	495.684
Undisbursed loan amounts	132.351	106.656	132.351	106.656
Other commitments	8.613	8.797	8.613	8.797
	<u>666.047</u>	<u>606.576</u>	<u>666.126</u>	<u>611.137</u>
	<u>958.268</u>	<u>854.887</u>	<u>958.368</u>	<u>859.472</u>

Capital Commitments

At 31 December 2017, the Group's and the Bank's commitments for capital expenditure, not recognised in the statement of financial position, amounted to €7.199 thousand (Group and the Bank, 2016: €6.349 thousand).

Notes to the Financial Statements

34. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Contingent liabilities for pending litigations or complaints and/or claims

The Group is engaged in various legal proceedings and regulatory matters arising out of its normal business operations, where an obligation may be created for which an outflow of resources embodying economic benefits is possible. The existence of these obligations will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group.

Hence the effect of the outcome of these matters cannot be predicted with certainty but may impact the Group's financial results. The Group is of the opinion that there are adequate defences in place for a successful outcome, in the course of the relevant proceedings. It is not practicable to provide an aggregate estimate of potential liability for such legal proceedings to be disclosed as a class of contingent liabilities.

Consumer Protection Service

On 12 October 2017 the director of the Consumer Protection Service (CPS) issued a decision in relation to specific terms included in the Bank's standard housing loan agreements used in the period 2007-2008. The CPS's decision provides that these contracts contain certain unfair/non-transparent terms and has invited the Bank to inform the CPS of any actions it intends to take in relation to such findings. The Bank has provided a response describing the proposed actions pursuant to the relevant decision and is currently in discussions with the CPS to reach an agreeable solution to any concerns of the CPS.

35. DERIVATIVES

The Group uses the following derivative instruments:

- Foreign currency forwards: represent agreements for the purchase or sale of foreign currencies settled at a future date.
- Foreign currency swaps: represent agreements for the exchange of cash flows of different currencies.
- Options: represent contracts for future purchase or sale, at a predetermined value of a financial "product", offering the right, but not the obligation, to one of the two parties to request by the other party the fulfilment of the agreement during a certain period of time or on a specific date.
- Interest rate swaps: represent agreements where one stream of future interest payments is exchanged for another based on a predetermined notional amount and time periods.

At 31 December 2017	The Group and the Bank		
	Nominal value	Other assets	Other liabilities
	€'000	€'000	€'000
Foreign currency forwards	58	1	-
Foreign currency swaps	469.811	-	4.745
Interest rate swaps	17.507	228	467
	<u>487.376</u>	<u>229</u>	<u>5.212</u>

Notes to the Financial Statements

35. DERIVATIVES (continued)

At 31 December 2016	The Group and the Bank		
	Fair value		
	Nominal value €'000	Other assets €'000	Other liabilities €'000
Foreign currency forwards	43.734	1.145	1
Foreign currency swaps	402.077	8.239	1.610
Options	24.311	94	94
Interest rate swaps	114.868	1.448	2.522
	<u>584.990</u>	<u>10.926</u>	<u>4.227</u>

36. CASH AND CASH EQUIVALENTS

	The Group		The Bank	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Cash and balances with Central Banks	2.225.131	2.054.650	2.225.129	2.054.649
Placements with other banks	249.940	439.032	239.972	427.402
	<u>2.475.071</u>	<u>2.493.682</u>	<u>2.465.101</u>	<u>2.482.051</u>

Cash and cash equivalents include cash and unrestricted balances with Central Banks and placements with other banks, with original maturities of less than three months.

37. DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE BANK

According to the Cyprus Securities and Stock Exchange Regulations and in accordance with the requirements of the Directive D1190/2007/04 para. 4 of the Cyprus Securities and Exchange Commission, the Bank is required to disclose the percentage shareholdings in the Bank's share capital owned by Members of the Board of Directors, their spouses, or/and relatives by blood up to first degree and companies in which they control directly and indirectly at least 20% of the voting rights at 31 December 2017 and the respective percentages of five (5) days prior to the date of approval of the Financial Statements by the Board.

	31 December 2017			22 March 2018		
	Direct participation	Indirect participation	Total participation	Direct participation	Indirect participation	Total participation
Dr E. A. Polykarpou	-	-	-	-	-	-
M. S. Yannopoulos	-	-	-	-	-	-
I. A. Georgiadou	-	-	-	-	-	-
M. Pantelidou - Neophytou	0,00370%	-	0,00370%	0,00370%	-	0,00370%
D. W. Bonanno	-	-	-	-	-	-
Ch. A. Hadjistavris	-	-	-	-	-	-
A. Christofides	-	0,00001%	0,00001%	-	0,00001%	0,00001%
L. Papadopoulos	-	0,00006%	0,00006%	-	0,00006%	0,00006%
A. C. Wynn	-	-	-	-	-	-
S. J. Albutt	-	-	-	-	-	-
D. Efstathiou	-	-	-	-	-	-
I. A. Matsis	-	0,00120%	0,00120%	-	0,00120%	0,00120%
L. Kramer	-	-	-	-	-	-

The Members of the Board of Directors as at 31 December 2017 and as at 22 March 2018 did not hold any stake in the Bank's issued loan capital (31 December 2016: nil).

Notes to the Financial Statements

38. RELATED PARTY TRANSACTIONS

Members of the Board of Directors and connected persons

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

	2017 €'000	2016 €'000
Loans and advances	18	28
Tangible securities	6	-
Deposits	1.953	1.569

Additionally, as at 31 December 2017, there were contingent liabilities and commitments in respect of Members of the Board of Directors and their connected persons in the form of documentary credits, guarantees and unused limits amounting to €60 thousand which did not exceed 1% of the Bank's net assets (2016: €56 thousand).

For the year ended 31 December 2017 there was no interest income in relation to Members of the Board of Directors and their connected persons (31 December 2016: nil), while interest expense in respect of Members of the Board of Directors and their connected persons amounted to €13 thousand (31 December 2016: €10 thousand).

Emoluments and fees of Members of the Board of Directors

	2017 €'000	2016 €'000
Emoluments and fees of Members of the Board of Directors:		
Emoluments and benefits in executive capacity	673	723
Employer's contributions for social insurance, etc	22	57
Retirement benefits	8	15
Amounts paid on termination	-	526
Total emoluments for Executive Directors	703	1.321
Fees	1.029	1.003
Employer's contributions – Non Executive Directors	-	10

Other transactions with Members of the Board of Directors and their connected persons

The sales of insurance policies for the year ended 31 December 2017 by the Group's subsidiary, Pancyprian Insurance Ltd, to Members of the Board and their connected persons as defined above, amounted to €10 thousand (31 December 2016: €12 thousand), while sales of insurance policies by the Group's subsidiary, Hellenic Alico Life Insurance Company amounted to €957 (31 December 2016: €140).

For the year ended 31 December 2017 non-interest income which relates to Members of the Board of Directors and their connected persons was nil (31 December 2016: €1 thousand).

Key Management personnel who are not Directors and their connected persons

Key Management personnel are those persons who have the authority and the responsibility for the planning, management and control of the Banks' operations, directly or indirectly. The Group, according to the provisions of IAS 24 considers as Key Management personnel the General Managers of the Bank who were not Directors, the members of the Asset and Liability Committee (ALCO) as well as management personnel who refer directly to the Chief Executive Officer.

Connected persons include spouses, minor children and companies in which the Key Management personnel who were not Directors hold, directly or indirectly, at least 20% of the voting rights at a general meeting.

Notes to the Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

	2017 €'000	2016 €'000
Loans and advances	686	716
Tangible securities	349	227
Deposits	3.311	4.134

Emoluments of Key Management personnel of the Group

The emoluments of Key Management personnel who were not Directors were:

	2017 €'000	2016 €'000
Emoluments of Key Management personnel who were not Directors:		
Salaries and other short term benefits	2.141	2.332
Employer's contributions for social insurance, etc	133	194
Retirement benefits	157	149
Amounts paid on termination	-	238
	2.431	2.913

The number of Key Management personnel as at 31 December 2017 was 13 (31 December 2016: 13).

During the first quarter of 2016, the contract of employment between one Key Management personnel and the Bank was terminated by mutual consent. The parties agreed to a consideration for the termination of the contract of employment, in cash and in kind, amounting in total to approximately €238 thousand. The Bank also paid to the Key Management personnel the total amount of his accrued rights.

Furthermore the Bank signed a termination agreement with another Key Management Personnel and paid to him in the fourth quarter of 2016 the ex-gratia amount of €202 thousand. The termination took place during the first quarter of 2017 and additional amount of €23 thousand benefits in kind were given.

In addition, as at 31 December 2017, there were contingent liabilities and commitments to Key Management personnel who were not Directors and their connected persons amounting to €308 thousand (2016: €296 thousand).

Interest income in relation to Key Management personnel and their connected persons for the year ended 31 December 2017 amounted to €15 thousand (31 December 2016: €14 thousand), while interest expense in relation to Key Management personnel and their connected persons amounted to €33 thousand (31 December 2016: €36 thousand).

The sales of insurance policies for the year ended 31 December 2017 by the Group's subsidiary, Pancyprian Insurance Ltd, to Key Management personnel and their connected persons, as defined above, amounted to €12 thousand (31 December 2016: €23 thousand) while the sales of insurance policies by the Group's subsidiary, Hellenic Alico Life Insurance Company amounted to €24 thousand (31 December 2016: €20 thousand).

Shareholders with significant influence and their connected persons

Pursuant to the provisions of IAS 24, related parties are considered, among others, the Shareholders who have significant influence to the Bank or/and hold directly or indirectly more than twenty percent (20%) of the nominal value of the issued capital of the Bank.

Connected persons include the entities controlled by Shareholders with significant influence as they are defined above.

Notes to the Financial Statements

38. RELATED PARTY TRANSACTIONS (continued)

	2017 €'000	2016 €'000
Loans and advances	<u>3</u>	<u>1</u>
Tangible securities	<u>398</u>	<u>198</u>
Deposits	<u>26.181</u>	<u>21.505</u>

On 31 December 2017, there were contingent liabilities and commitments in relation to Shareholders with significant influence and connected persons in the form of documentary credits, guarantees and unused limits amounting to €712 thousand (2016: €514 thousand).

Interest income in relation to Shareholders and connected persons for the year ended 31 December 2017 amounted to nil (31 December 2016: nil) while the corresponding interest expense was €4 thousand (31 December 2016: €3 thousand).

Other transactions with Shareholders with significant influence and their connected persons

During the year ended 31 December 2017, there were no purchases of goods and services by Shareholders with significant influence and their connected persons as defined above (31 December 2016: nil). In addition, the sales of insurance policies by the Group's subsidiary, Pancyprion Insurance Ltd, to Shareholders with significant influence and their connected persons as defined above, amounted to €138 thousand (31 December 2016: €150 thousand).

For the year ended 31 December 2017 non-interest income amounting to €158 thousand (31 December 2016: €154 thousand) was received which relates to Shareholders with significant influence and their connected persons.

All transactions with Members of the Board of Directors, Key Management personnel, Shareholders with significant influence and their connected persons are at an arm's length basis. Regarding the Key Management personnel, facilities have been granted based on current terms as those applicable to the rest of the Group's personnel.

As at 31 December 2017, Shareholders with significant influence and their connected persons had in their possession CCS1 and CCS2 as presented in Note 39 below.

39. SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL

According to the Cyprus Securities and Stock Exchange Regulations and pursuant to the requirements of the Directive DI190/2007/04 para. 4 of the Cyprus Securities and Exchange Commission, the following shareholders owned five (5%) percent or more of the nominal value of the Bank's issued share capital as at 31 December 2017:

CPB FBO Third Point Hellenic Recovery Fund LP (CY)	26,20%
Wargaming Group Limited	24,92%
Demetra Investment Public Ltd	10,05%
European Bank for Reconstruction and Development	5,37%

On 31 December 2017 shareholders holding more than 5% of the share capital, had in their possession CCS1 amounting to €23 thousand (31 December 2016: €23 thousand) and CCS2 amounting to €8,0 million (31 December 2016: €15,7 million). On 24 October 2017, Shareholders holding more than 5% of the share capital disposed CCS2 amounting to €7,7 million.

Notes to the Financial Statements

39. SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL (continued)

Pursuant to the requirements of the Directive DI190/2007/04 of the Cyprus Securities and Exchange Commission, the Bank is required to disclose the shareholders who held at least five (5%) percent of the nominal value of the issued share capital, five (5) days prior to the date of approval of the Financial Statements by the Board.

CPB FBO Third Point Hellenic Recovery Fund LP (CY)	26,20%
Wargaming Group Limited	24,92%
Demetra Investment Public Ltd	10,05%
European Bank for Reconstruction and Development	5,37%

Five (5) days prior to the date of approval of the Financial Statements by the Board, Shareholders holding more than 5% of the share capital, had in their possession CCS2 amounting to €8,0 million.

40. FAIR VALUE

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

The Group measures the fair value of an instrument using the quoted price in an active market, when available, for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the main factors that market participants would take into account in pricing a transaction.

Fair value of financial instruments

The table below presents the analysis of the Group's financial instruments measured at fair value on the basis of the three-level hierarchy by reference to the source of data used to derive the fair values. The levels of hierarchy of fair value are as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Data other than quoted prices included within level 1 that is observable for the asset or liability, either directly or indirectly.
- Level 3: Import data for the asset or liability that is not based on observable market data (non-observable import data).

Notes to the Financial Statements

40. FAIR VALUE (continued)

31 December 2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives:				
Foreign currency forwards	-	1	-	1
Foreign currency swaps	-	-	-	-
Interest rate swaps	-	228	-	228
	<u>-</u>	<u>229</u>	<u>-</u>	<u>229</u>
Other financial assets at fair value through profit or loss				
Debt securities:				
Banks	-	-	-	-
Other issuers	-	-	-	-
Equity securities	450	-	-	450
	<u>450</u>	<u>-</u>	<u>-</u>	<u>450</u>
Investments available for sale				
Debt securities:				
Government	390.195	-	-	390.195
Banks	40.015	-	-	40.015
Other issuers	237.157	11.876	-	249.033
Equity securities	943	-	7.838	8.781
Collective investments units	20.806	-	-	20.806
	<u>689.116</u>	<u>11.876</u>	<u>7.838</u>	<u>708.830</u>
Total	<u>689.566</u>	<u>12.105</u>	<u>7.838</u>	<u>709.509</u>
31 December 2017	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial liabilities				
Derivatives:				
Foreign currency forwards	-	-	-	-
Interest rate swaps	-	467	-	467
Foreign currency swaps	-	4.745	-	4.745
Total	<u>-</u>	<u>5.212</u>	<u>-</u>	<u>5.212</u>

Notes to the Financial Statements

40. FAIR VALUE (continued)

31 December 2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial assets				
Derivatives:				
Foreign currency forwards	-	1.145	-	1.145
Options	-	94	-	94
Interest rate swaps	-	1.448	-	1.448
Foreign currency swaps	-	8.239	-	8.239
	<u>-</u>	<u>10.926</u>	<u>-</u>	<u>10.926</u>
Other financial assets at fair value through profit or loss				
Debt securities:				
Banks	-	-	-	-
Other issuers	-	-	-	-
Equity securities	293	-	-	293
	<u>293</u>	<u>-</u>	<u>-</u>	<u>293</u>
Investments available for sale				
Debt securities:				
Government	432.663	2.428	-	435.091
Banks	61.642	-	-	61.642
Other issuers	285.981	19.844	-	305.825
Equity securities	982	-	7.228	8.210
Collective investments units	7.505	-	-	7.505
	<u>788.773</u>	<u>22.272</u>	<u>7.228</u>	<u>818.273</u>
Total	<u>789.066</u>	<u>33.198</u>	<u>7.228</u>	<u>829.492</u>
31 December 2016	Level 1 €'000	Level 2 €'000	Level 3 €'000	Total €'000
Financial liabilities				
Derivatives:				
Foreign currency forwards	-	1	-	1
Options	-	94	-	94
Interest rate swaps	-	2.522	-	2.522
Foreign currency swaps	-	1.610	-	1.610
Total	<u>-</u>	<u>4.227</u>	<u>-</u>	<u>4.227</u>

The tables below present the movement of fair value of financial instruments categorised at level 3 hierarchy:

	Investments available for sale			Total €'000
	Debt securities €'000	Equity securities €'000	Shares held for sale €'000	
1 January 2017	-	7.228	-	7.228
Gains recognised in consolidated statement of comprehensive income in the category "Surplus on revaluation of available for sale equity and debt securities"	-	610	-	610
31 December 2017	<u>-</u>	<u>7.838</u>	<u>-</u>	<u>7.838</u>

Notes to the Financial Statements

40. FAIR VALUE (continued)

	Investments available for sale			Total €'000
	Debt securities	Equity securities	Shares held for sale	
	€'000	€'000	€'000	
1 January 2016	9.887	6.525	12.381	28.793
Gains recognised in consolidated income statement in the category "Net gains on disposal and revaluation of foreign currencies and financial instruments"	113	-	-	113
Additions	-	1.906	-	1.906
Transfer out	-	(32)	-	(32)
Disposals	(10.000)	-	(12.381)	(22.381)
Losses recognised in consolidated statement of comprehensive income in the category "Surplus on revaluation of available for sale equity and debt securities"	-	(1.171)	-	(1.171)
31 December 2016	-	7.228	-	7.228

For the valuation at fair value of the investments in equity securities which are classified as Level 3, a valuation method based on the company's equity at which the investment in shares is held as well as estimates of the Management of the Group have been used. Investments in debt securities, classified in Level 3, were valued using unobservable data that reflect however the assumptions that market participants would make to assess an asset or a liability, based on the best available information under current conditions.

On 31 December 2017 the fair value of investments in debt securities classified in the category "Assets held to maturity" and which are not measured at fair value for both the Group and the Bank amounted to €157.840 thousand (2016: €49.377 thousand) and in the three-level hierarchy would be classified as level 1. Also the fair value of investments in debt securities classified in the category "Loans and receivables" and which are not measured at fair value, as at 31 December 2017 amounted to €220.101 thousand (2016: €302.096 thousand) and in the three-level hierarchy would be classified as level 2.

The fair value of loans and advances to customers is based on the present value of expected future cash flows. The level of subjectivity and degree of management judgment required is significant in these discounted cash flow models given that management is required to exercise judgment in the selection and application of parameters and assumptions where some or all of the parameter inputs are less observable. Future cash flows have been based on the future expected loss rate per loan category, taking into account expectations in the credit quality of the borrowers. The discount rate includes components that capture: the Group's funding cost, cost of capital and an adjustment for the future cost of risk.

The fair value of loans and advances to customers not measured at fair value on 31 December 2017 amounted to €2.654 million (2016: €2.819 million) for the Group and the Bank and have been classified at level 3.

41. SEGMENTAL ANALYSIS

For management purposes, the Group is organised into two operating segments based on the provision of services, as follows:

- Banking and financial services segment - principally providing banking and financial services, including financing and investment services, custodian and factoring services as well as management and disposal of properties. Banking and financial services segment also includes the share of results of associate company.
- Insurance services segment - principally providing life and general insurance services.

Notes to the Financial Statements

41. SEGMENTAL ANALYSIS (continued)

The table below presents income, expenses, impairment losses and provisions to cover credit risk, profit/(loss) before share of results of associate company, share of results of associate company and information on assets, liabilities and capital expenditure regarding the Group's operating segments.

Notes to the Financial Statements

41. SEGMENTAL ANALYSIS (continued)

	Banking & Financial services		Insurance Services		Intersegment transactions/balances		Total	
	2017 €'000	2016 €'000	2017 €'000	2016 €'000	2017 €'000	2016 €'000	2017 €'000	2016 €'000
Turnover	262.151	278.179	17.722	18.769	(5.844)	(6.874)	274.029	290.074
Net interest income	131.000	147.115	178	377	-	-	131.178	147.492
Net fees and commission income/(expense)	48.041	53.007	(2.758)	(1.008)	5	(7)	45.288	51.992
Net gains/(losses) on disposal and revaluation of foreign currencies and financial instruments	12.462	27.435	(49)	-	-	-	12.413	27.435
Other income/(expenses)	33.479	10.243	15.569	14.871	(3.464)	(4.351)	45.584	20.763
Staff costs	(81.699)	(77.002)	(5.225)	(5.004)	-	-	(86.924)	(82.006)
Depreciation of property, plant & equipment and amortisation of intangibles	(7.866)	(5.948)	(250)	(153)	-	-	(8.116)	(6.101)
Administrative and other expenses	(100.830)	(54.073)	(5.140)	(2.378)	130	76	(105.840)	(56.375)
Profit/(loss) from ordinary operations before impairment losses and provisions to cover credit risk	34.587	100.777	2.325	6.705	(3.329)	(4.282)	33.583	103.200
Impairment losses on the value of loans and advances	(86.130)	(122.235)	-	-	-	-	(86.130)	(122.235)
Provisions to cover credit risk for contractual commitments and guarantees	3.220	7.002	-	-	-	-	3.220	7.002
(Loss)/profit before share of results of associate company net of taxation	(48.323)	(14.456)	2.325	6.705	(3.329)	(4.282)	(49.327)	(12.033)
Share of results of associate company net of taxation	789	-	-	-	-	-	789	-
(Loss)/profit before taxation	(47.534)	(14.456)	2.325	6.705	(3.329)	(4.282)	(48.538)	(12.033)
Total assets	6.766.825	6.969.543	91.483	88.467	(11.671)	(20.406)	6.846.637	7.037.604
Total liabilities	6.237.226	6.437.010	59.100	54.489	(11.985)	(20.766)	6.284.341	6.470.733
Capital expenditure on property, plant & equipment and computer software	17.113	11.594	177	89	-	-	17.290	11.683

Notes to the Financial Statements

42. CATEGORISATION OF FINANCIAL INSTRUMENTS

The Group

	Carrying amount €'000	Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortised cost €'000
31 December 2017						
Assets						
Cash and balances with Central Banks	2.293.754	-	-	2.293.754	-	-
Placements with other banks	348.176	-	-	348.176	-	-
Loans and advances to customers	2.766.738	-	-	2.766.738	-	-
Debt securities	1.018.902	-	146.399	193.260	679.243	-
Equity securities & Collective investment units	30.037	450	-	-	29.587	-
Derivatives	229	229	-	-	-	-
	6.457.836	679	146.399	5.601.928	708.830	-
Liabilities						
Deposits by banks	176.355	-	-	-	-	176.355
Customer deposits and other customer accounts	5.808.125	-	-	-	-	5.808.125
Derivatives	5.212	5.212	-	-	-	-
Loan capital	139.667	-	-	-	-	139.667
	6.129.359	5.212	-	-	-	6.124.147
31 December 2016						
Assets						
Cash and balances with Central Banks	2.083.444	-	-	2.083.444	-	-
Placements with other banks	548.902	-	-	548.902	-	-
Loans and advances to customers	2.926.033	-	-	2.926.033	-	-
Debt securities	1.149.132	-	47.214	299.360	802.558	-
Equity securities & Collective investment units	16.008	293	-	-	15.715	-
Derivatives	10.926	10.926	-	-	-	-
	6.734.445	11.219	47.214	5.857.739	818.273	-
Liabilities						
Deposits by banks	100.652	-	-	-	-	100.652
Customer deposits and other customer accounts	6.111.088	-	-	-	-	6.111.088
Derivatives	4.227	4.227	-	-	-	-
Loan capital	139.667	-	-	-	-	139.667
	6.355.634	4.227	-	-	-	6.351.407

Notes to the Financial Statements

42. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

The Bank

	Carrying amount €'000	Trading €'000	Held to maturity €'000	Loans and receivables €'000	Available for sale €'000	Other amortised cost €'000
31 December 2017						
Assets						
Cash and balances with Central Banks	2.293.753	-	-	2.293.753	-	-
Placements with other banks	336.272	-	-	336.272	-	-
Loans and advances to customers	2.766.738	-	-	2.766.738	-	-
Debt securities	1.018.090	-	146.399	193.260	678.431	-
Equity securities	9.231	450	-	-	8.781	-
Derivatives	229	229	-	-	-	-
	6.424.313	679	146.399	5.590.023	687.212	-
Liabilities						
Deposits by banks	176.355	-	-	-	-	176.355
Customer deposits and other customer accounts	5.808.125	-	-	-	-	5.808.125
Derivatives	5.212	5.212	-	-	-	-
Loan capital	139.667	-	-	-	-	139.667
	6.129.359	5.212	-	-	-	6.124.147
31 December 2016						
Assets						
Cash and balances with Central Banks	2.083.443	-	-	2.083.443	-	-
Placements with other banks	537.259	-	-	537.259	-	-
Loans and advances to customers	2.926.033	-	-	2.926.033	-	-
Debt securities	1.142.704	-	47.214	299.360	796.130	-
Equity securities	8.503	293	-	-	8.210	-
Derivatives	10.926	10.926	-	-	-	-
	6.708.868	11.219	47.214	5.846.095	804.340	-
Liabilities						
Deposits by banks	100.652	-	-	-	-	100.652
Customer deposits and other customer accounts	6.111.088	-	-	-	-	6.111.088
Derivatives	4.227	4.227	-	-	-	-
Loan capital	139.667	-	-	-	-	139.667
	6.355.634	4.227	-	-	-	6.351.407

Notes to the Financial Statements

43. ECONOMIC ENVIRONMENT

Economic Environment and Group operations in Cyprus

Cyprus has achieved an impressive turnaround following the economic crisis and continues to gain momentum for a third consecutive year. Real GDP growth increased an annual 3,9% during 2017. Growth is becoming more vigorous and broad-based, contributing to employment growth and the reduction of unemployment, though still remaining high.

Public finances have been consolidated to a large extent to secure the sustainability of public debt. The preliminary General Government fiscal results, indicate a surplus of €360,7 million (1,9% of GDP) for 2017, as compared to a surplus of €82,4 million for 2016 (0,5% of GDP). The fiscal results for January 2018 also indicate a surplus of €255,2 million (1,3% of GDP), as compared to a surplus of €167,8 million in January 2017 (0,9% of GDP). Significant progress has been made to restructure and restore confidence in the Cypriot banking system. The level of NPLs is declining but remains very high, which has led to the increase of provision for loan impairments during 2017.

The better than expected economic recovery, along with the improved domestic financial conditions, have created and maintained an environment of improved confidence. This is reflected in the upgrades of the country's and the largest domestic banks' credit rating by international rating agencies. In March 2018, Standard and Poor's has affirmed Cyprus' long-term credit rating at 'BB+', which is standing one notch below investment grade. In October 2017, Fitch upgraded the rating for the Cyprus sovereign to BB from BB-, now two notches below investment grade. Taking advantage of the stable market backdrop, the recent rating upgrades and the ability of the Republic of Cyprus to tap the international capital markets, government bond yields in 2017 have declined to historically low levels, allowing the government to refinance national debt on more favourable rates and with extended maturities.

The course of the steady recovery path is reflected in the labor market, which tends to follow the recovery with a time lag. In 2017, the unemployment rate stood at 11,3% recording a decrease from 13,0% in the previous year. In 2017 inflation rose by 0,7%, compared with a reduction of 1,2% in 2016.

The expansion of the economy was mainly driven by rising private consumption and investment. From a sectoral point of view, growth was supported by resilient export performance in the services sectors of tourism and professional business. Specifically, for the year 2017 revenue from tourism is estimated at €2,63 billion compared to €2,36 billion in the corresponding period of 2016, recording an increase of 11,7%. For 2017 arrivals of tourists totaled 3,65 million compared to 3,18 million in 2016, recording an increase of 14,6%.

The housing market continued its adjustment during the second quarter of 2017 (latest available data), bringing the cumulative fall in prices since mid-2008 to 30% (Central Bank of Cyprus's Property Price Index). In the third quarter of 2017, the CBC index recorded a positive growth rate (1,4%). During 2017 property sales recorded a new increase according to Land Registry data. Specifically, the sales contracts submitted in 2017 increased to 8.734 versus 7.063 in the previous year, recording an annual increase of 24%.

Cyprus' macroeconomic outlook is positive and is accompanied by a significant increase in real gross domestic product during the year, a robust employment growth and further improvement in key domestic indicators. Private consumption recovery is going to continue reflecting the strong improvement in consumer confidence.

Notes to the Financial Statements

43. ECONOMIC ENVIRONMENT (continued)

Despite the important steps taken towards restoring the positive economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high volume of NPLs, high unemployment, the high ratio of public debt to GDP which renders Cyprus vulnerable to negative shocks and delays in the advancement of structural reforms. The high private indebtedness levels that have led to deleveraging and increased NPLs, continue to pose significant risks to the stability of the domestic banking system and to the outlook for the economy. The improved macroeconomic environment is expected to support banks' efforts to tackle the high level of NPLs. The modernization of the legislation on insolvency and foreclosure framework which is now in place will be an invaluable tool towards this direction. From an exogenous perspective, the economic outlook may be negatively influenced due to a slower than expected growth in the UK, the uncertainty effects of Brexit and a weaker pound. Also, increased geopolitical tensions in the Middle East and Eastern Mediterranean, could trigger adverse spillovers to economic confidence, tourism and consequently to the aggregate economic activity. On the other hand, geopolitical tensions in neighbouring countries render Cyprus as a safer tourist destination and could therefore counterbalance, to a significant extent, any potential reduction in tourist traffic from UK. Additionally, developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored in order to assess the potential prospects and risks that are being developed.

In spite of these challenges, Cyprus' macroeconomic outlook is positive. Official forecasts by the Central Bank of Cyprus anticipate growth of 3,4% in 2018 and 3,2% in 2019. The pick-up in domestic demand is expected to be reflected into improved labor market conditions, with unemployment starting to ease gradually. Inflation is expected to turn positive, but remain relatively low, at around 1% in 2018.

Consequences of the recent developments

The Cyprus banking sector has gone through a reformation phase and is now in a strengthened capital and liquidity position. Its size has been reduced to a moderate 3,5 times the GDP or about the EU average. Foreign exposures have been eliminated and domestic operations form the main focus. While decisive steps were taken and swift progress has been achieved throughout the banking sector, the high share of NPEs continues to impact banks' balance sheets.

The Bank has managed to navigate successfully through the banking crisis. It has retained throughout the crisis its reputation for stability and confidence and is now focusing on strengthening and improving its market position within the Group's strategy of reorganizing and reforming its business model. The main pillars of the strategy is the reduction of NPEs, the expansion of new lending, thus increasing the Bank's market share and the increase of its revenues through other banking activities.

As part of its NPE strategy, the Bank sold its NPEs and real estate management business, to a newly established entity APS Debt Servicing Cyprus Ltd (APS Cyprus) which is a member of the APS Holding. Through the creation of the first debt servicing platform in the Cypriot market, the Bank will be able to effectively tackle its NPEs in an accelerated way and with higher recoveries, leveraging on the knowhow, proven expertise and technical experience of APS Holding. Furthermore, it will allow the Bank to better allocate its resources on managing and growing the performing loan portfolio by using its excess liquidity to the benefit of the market, as well as on continuing its digital transformation journey, the optimisation of corporate governance and the adaptation to the expanding compliance framework.

Also, the Bank has entered into an agreement to sell a non-performing loan portfolio and remains focused to accelerate the de-risking of its non-performing exposures. The finalisation of the transaction is subject to the completion of the required procedures under the relevant legislation, the obtaining of applicable approvals and clearances from the relevant regulatory authorities and is targeted to be achieved by the end of the second quarter of 2018.

Notes to the Financial Statements

43. ECONOMIC ENVIRONMENT (continued)

The Bank maintains sufficient liquidity which allows the exploitation of opportunities, maintaining its focus on organic growth. The focus of new loans will be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and commercial activities, manufacturing, tourism and on shipping by targeting specific customer profiles. At the same time, loans to the retail sector will be geared toward mortgages, small loans to new customers and supporting current clients who are deemed viable.

44. BANK RECOVERY AND RESOLUTION DIRECTIVE (BRRD)

The Bank within the framework of the Bank Recovery and Resolution Directive (BRRD) is subject to the minimum requirement for own funds and eligible liabilities (MREL). The framework, which entered into effect on 1 January 2016, provides authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions, while minimising the impact of an institution's failure on the economy and financial system. This is achieved by requiring banks to have a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of a bank failure (that is: "bailed-in"). Such liabilities, in combination with equity, are known as MREL.

The Bank's MREL requirement, as well as the time framework for compliance, have not been finalised. Nevertheless, the Bank is closely monitoring the developments on this front.

45. DECISIONS OF THE ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF HELLENIC BANK PUBLIC COMPANY LIMITED

The 43rd Annual General Meeting (AGM) of the Shareholders of the Bank, which was held on Wednesday 24 May 2017, was attended by 62 shareholders, either physically or by proxy, representing 148,995,435 shares, being 75,07% of the issued share capital of the Bank.

The AGM examined and approved the Directors' Report, the Financial Statements and the Auditors' Report for the year ended 31 December 2016.

Ms Irena A. Georgiadou, Mr Marinos S. Yannopoulos, Mr Christodoulos A. Hadjistavris and Mr Georgios Fereos were re-elected as Members of the Board of Directors, following voting by poll.

The AGM examined and approved the Remuneration Policy Report for the year 2016 and fixed the Remuneration of the Directors for the year 2017.

KPMG Limited was re-appointed as Auditors of the Bank for 2017 and the AGM decided that the Board of Directors was authorised to fix the remuneration of the Auditors.

The AGM additionally approved, that the Board of Directors is authorised to exercise all powers of the Bank to issue and allot to the chief executive officer of the Bank up to €200,000 worth of ordinary shares of the Bank of nominal value of €0,50 for every twelve months of his employment as chief executive officer, as the Board of Directors may in its sole unfettered discretion determine under a number of conditions.

During the AGM Ms Irena Georgiadou stated her intention not to continue servicing as Chairwoman of the Board of Directors. It is noted that Ms Georgiadou continues to be a member of the Board of Directors after her re-appointment as mentioned above.

Following the AGM, the Board of Directors convened and decided to initiate the process for identifying the appropriate candidate for the position of the Chairperson of the Board. The Board also decided that, in the meantime the Senior Independent Director of the Board Dr Evripides Polykarpou will be fulfilling the duties of the Chairman of the Board of Directors.

Detailed announcement of the decisions of the AGM is available on the Bank's official site www.hellenicbank.com.

Notes to the Financial Statements

46. EUROPEAN DEPOSIT INSURANCE SCHEME

As of 1 January 2016, the European Union within the Banking Union framework has put forward a third pillar, a deposit insurance scheme (EDIS-European Deposit Insurance Scheme) which will gradually take over the national Depositors' Guarantee Scheme (DGS). The first pillar of the Banking Union consists of a common framework for supervision of banks implemented by the Single Supervisory Mechanism (SSM); the second pillar consists of a common framework for bank resolution implemented by the Single Resolution Mechanism (SRM). The SRM provides that the Single Resolution Fund (SRF) will be built up over a period of 8 years with "ex-ante" contributions from the banking industry.

EDIS is established in three specified stages:

- The first stage would be a re-insurance scheme and would apply for 3 years until 2020. In this stage, a National Guarantee Scheme will have access to EDIS funds only after exhausting its own resources. EDIS funds will provide extra funds only up to a certain level. In order to limit moral hazard and avoid "first-mover advantages", a DGS can only benefit from EDIS in this stage if it has met its requirements and filled its national fund to the required level, and only if those funds have been fully depleted.
- The second stage would be a co-insurance scheme and would apply for 4 years until 2024. For this phase, a national scheme would not have to be exhausted before accessing EDIS. EDIS will contribute from first euro of loss and would absorb a progressively larger share of any losses over the 4-year period in the event of a pay-out or resolution procedure. Access to EDIS would continue to be dependent on compliance by national DGS with the required funding levels.
- In the final stage, EDIS would fully insure deposits and would cover all liquidity needs and losses in the event of a pay-out or resolution procedure.

Based on the above developments, the Bank received on 28 April 2016 a notification from the CBC stating that its 2016 contribution to SRF amounted to €3,1 million and was payable until 27 June 2016. The 2016 annual contribution was paid by the Ministry of Finance from the annual contributions payable by credit institutions for the special levy imposed in accordance with the provisions of "Special Levy on Credit Institutions Law of 2011 to 2015".

In September 2017, the House of Representatives passed some amendments to the "Special Levy Law of 2011 to 2015". The amendment law was published in the Official Gazette on the 6 October 2017. The consolidated law (which incorporates the above amendment) which is now referred to as the "Special Levy on Credit Institutions Laws of 2011 to 2017" provides for the deduction of the contributions made by credit institutions to the SRF in a year from the balance of the special levy payable (up to the amount of the special levy of the same year), effective as of 6 October 2017. Special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held by each credit institution on 31 December, 31 March, 30 June and 30 September. The contribution to the SRF for 2017 of €2,0 million paid in June was netted off from the fourth instalment for 2017 of the Special Levy.

47. RISK MANAGEMENT

47.1 Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market and Liquidity risks
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the management of Group's capital.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.2 Risk Management

The management and monitoring of all Group risks are centralised under a single division to which the following specialised risk management departments report:

- Credit Risk Management
- Market and Liquidity Risk Management
- Operational and Emerging Risk Management
- Risk Strategy, Capital & Analytics
- Enterprise Risk Management & Governance
- Credit Monitoring & Control
- Credit Analysis & Evaluation
- Insurance Risk Management

These departments report to the Risk Management Division, which is administratively independent from other units with executive authority and reports to the Board of Directors (BoD), through the Board Risk Management Committee (BRMC), as well as to the Chief Executive Officer.

The departments cover all risk areas across the Group's operations and are intensively working to ensure that the Bank fully conforms to the provisions of the Accord of Basel III, the Directives of the regulatory authorities and international best practices. This is facilitated by the Enterprise Risk Management & Governance unit which serves as a horizontal function, whose primary aim, is to facilitate in co-operation with other risk departments, the development and review of risk frameworks and policies for the management of individual risks, co-ordinate and drive cross-departmental and departmental projects and enhance the management and monitoring of risks by providing administrative support to the BRMC.

During 2017 the Board of Directors approved a revised Risk Appetite Framework (RAF) developed by Group Risk Management in line with international standards and best practice. The new RAF is part of the broader Enterprise Risk Management Framework and prescribes the process for risk appetite setting, feeding from the formulation of Material Risk Assessment and with a direct input into the Strategic Plan and ICAAP. The framework encompasses both quantitative and qualitative limits across an array of the risk types facing the bank and delineates responsibilities for its implementation, monitoring and governance (which also entails a breach escalation framework) in line with the Three Lines of Defence model and the Enterprise Risk Management Framework.

On the 14 March 2017, the Bank's Board of Directors approved a revised Risk Management Charter. One of the main changes in the Charter, is the establishment of a new unit named "Credit Analysis & Evaluation" which has been formed with the primary objective of identifying and assessing credit risk and providing independent second line of defence advice and recommendations to Loan Approval Committees. The changes aim to enhance the organisation of Risk Management and to reinforce the role of the second line of defence throughout the risk management cycle, with a special focus on the Bank's material risks. Additionally, the remaining Units have been renamed and their roles and responsibilities enhanced to better respond to regulatory requirements and conform with best practice.

47.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer and/or other counterparty to a financial instrument fail to meet their contractual obligations. This risk principally arises from lending, trade finance activities and treasury operations. The management of credit risk is one of the most important chapters in the Group's operation and is essential for its long term soundness.

Credit Risk Management

Credit Risk Management responsible for detecting, evaluating, measuring and observing/controlling credit risk, based on the strategic objectives of the Bank.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.3 Credit risk (continued)

During 2017 Credit Risk Management:

- Formulated and reviewed a number of credit risk related policies which were approved by the BoD. In general, credit risk related policies are reviewed and updated frequently to reflect any changes in the Group's risk appetite and strategy, the prevailing market environment/economy and Regulatory requirements.
- Monitored the loan portfolio of the Bank through the preparation of reports to both the Executive Management of the Bank and BRMC.
- Validated Individual Assessments of borrowers for impairment and challenged assumptions used for the calculation of credit losses (impairments). Prepared monthly presentations of impairment results to the Impairment Committee and quarterly presentations to the Board Audit Committee.
- Established and utilized a system to monitor and control the nature, composition and quality of the credit portfolio including non-performing and forborne portfolio of the Bank via a defined set of Key Performing Indicators (KPIs) and propose corrective or emergency (where needed) measures for the improvement of the portfolio quality and the mitigation of credit risk.
- Submitted reports to the CRO, the CEO and/or the Executive Credit Risk Committee and the BRMC for briefing on individual topics that may be included in the reports and suggestions are made towards the mitigation of credit risk.
- Assessed and monitored of the composition and the quality of the portfolio per industry, individual, country, purpose of lending concentrations.
- Has participated in the setting of Risk Appetite Framework/Risk Appetite Statement through the recommendation of specific quantitative and qualitative metrics. Credit Risk Management monthly monitors such limits/metrics.
- Calculated credit Risk Weighted Assets (RWA) enabling the Bank to monitor its capital standing in a more efficient and timely manner.
- Continued to participate in the implementation/application of the relevant Directives of the Supervisory Authority.
- Submitted Regulatory reports (regular and ad-hoc) to the Central Bank of Cyprus and to the Single Supervisory Mechanism (SSM).

Credit Monitoring & Control

Credit Monitoring & Control which was re-activated as a department in 2015 performs effective credit control and review to analyse and measure the Bank's quality of credit portfolio exposures with the following objectives:

- Ensure credit decisions are supported by adequate credit analysis
- Ensure that appropriate collection, default management and foreclosure strategies are in place and are followed
- Monitor historical performance through review of various credit metrics and credit risk reporting inclusive of new originations, portfolio mitigations, exception reporting etc.
- Independently review and validate the consistency and accuracy of individual risk ratings on individual credit reviewed

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.3 Credit risk (continued)

- Perform portfolio analysis on an aggregate basis to identify trends based on the systemic use of early warning indicators (KPI's) and credit process and credit portfolio metrics
- Review of individual credit decisions on a sample basis

The department provides ongoing, regular and near real-time feedback on areas of improvement.

Credit Monitoring & Control is responsible to report the findings and relevant recommendations stemming from its work and to follow up on implementation of recommendations.

Risk Strategy, Capital & Analytics

For all those credit facilities that are not individually assessed for impairment of value, a collective assessment is made using the appropriate probability of default and loss-given default rates. The Risk Strategy, Capital & Analytics department applies models for calculating the probability of default for each credit facility category and for measuring the loss-given default. The models' parameters are revisited on a regular basis. Upon completion of the above procedures Risk Management submits its suggestions for individual as well as collective impairments for approval to the Impairment Losses Committee and subsequently to the relevant Committee of the BoD.

In order to protect the interests of the Group, the significant and/or sudden changes in the parameters that shape credit risks are identified (world market developments/events, diversification of economic aggregates, credit ratings changes, reclassifications of countries etc) and all necessary measures/implementation of actions within the framework of credit risk management are taken. Stress tests are conducted at regular time intervals, both in relation to the possible deterioration in asset quality as well as the possible impairment in the value of specific collaterals (with special emphasis on the value of mortgage properties).

To achieve the above, sophisticated systems are employed to evaluate existing/potential borrowers' creditworthiness and to measure credit risk based on quantitative and qualitative criteria:

1. For the Retail sector, a credit risk assessment system is applied for the evaluation of the creditworthiness of customers and the measurement of credit risk (Credit Scoring). This system covers credit cards and other retail lending products.
2. For the Commercial and Corporate sectors, an internal credit rating system (Credit Rating) is applied which classifies companies into credit rating bands, thus assisting both in the assessment of the credit worthiness of a company and in the rationalisation of pricing requirements according to the risk undertaken, while taking into account each company's financial position and various qualitative criteria relating to the company as well as the market in which it operates.
3. For Treasury, there is a centralised management of exposures to countries, financial institutions and other counterparties. Limits are defined based on the Credit Limits Model, which is primarily based on the credit standing of the country and counterparty as determined by the credit ratings of External Credit Assessment Institutions, while also taking into account world and country ranks of counterparties in terms of assets but also specific country ranks.

47.3.1 Exposure to credit risk

47.3.1.1 Concentration of credit risk

The Group monitors concentration of credit risk by sector and by geographic location.

The concentration by geographic location for loans and advances to customers is measured based on the geographical position of the customer. The concentration by geographic location for investments and placements with other banks is based on the geographical position of the risk country of the issuer of the security and counterparty respectively.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.3 Credit risk (continued)

The analysis of concentration of credit risk of the Group at the reporting date is shown below:

Concentration by sector:	Loans and advances to customers		Placements with other banks		Debt securities	
	2017	2016	2017	2016	2017	2016
	€'000	€'000	€'000	€'000	€'000	€'000
Carrying amount	2.766.738	2.926.033	348.176	548.902	1.018.902	1.149.132
Businesses	2.777.247	3.026.300	-	-	-	-
Individuals	1.277.666	1.273.817	-	-	-	-
Governments	-	-	-	-	729.854	781.665
Banks	-	-	348.176	548.902	40.015	61.642
Other sectors	-	-	-	-	249.033	305.825
	4.054.913	4.300.117	348.176	548.902	1.018.902	1.149.132
Provisions for impairment	(1.288.175)	(1.374.084)	-	-	-	-
	2.766.738	2.926.033	348.176	548.902	1.018.902	1.149.132

Businesses in the above table include trade, construction and real estate, manufacturing, tourism and other companies as disclosed in Note 17.

Concentration by geographical location:	Loans and advances to customers		Placements with other banks		Debt securities	
	2017	2016	2017	2016	2017	2016
	€'000	€'000	€'000	€'000	€'000	€'000
Carrying amount	2.766.738	2.926.033	348.176	548.902	1.018.902	1.149.132
Eurozone	3.945.759	4.194.110	96.953	172.022	825.744	842.564
Other European countries	89.181	98.474	155.874	270.541	69.155	70.715
America	7.250	812	89.499	101.833	85.705	190.257
Oceania	17	22	12	-	-	7.523
Asia	484	379	4.456	3.120	38.298	38.073
Middle East	4.258	3.262	1.300	1.139	-	-
Africa	7.964	3.058	82	247	-	-
	4.054.913	4.300.117	348.176	548.902	1.018.902	1.149.132
Provisions for impairment	(1.288.175)	(1.374.084)	-	-	-	-
	2.766.738	2.926.033	348.176	548.902	1.018.902	1.149.132

At 31 December 2017, the analysis of debt securities per credit rating, based on the Regulation (EU) No 575/2013 and CRD IV 2013/36/EU for the Risk Weighted Assets calculation (as per Section 4, Article 138 of the regulation), in Moody's credit ratings equivalents were as follows:

	2017	2016
	€'000	€'000
Aaa	336.347	492.645
Aa3	-	13.299
Baa1 to B3	682.555	643.188
	1.018.902	1.149.132

47.3.1.2 Group's exposure in countries with high credit risk

The Group closely monitors developments in the international markets so that any measures needed to reduce credit risk are promptly taken.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.3 Credit risk (continued)

The monitoring of exposure in countries of high risk is centralised through systems that fully and on an ongoing basis cover all material exposures to these countries such as interbank placements, debt securities, other investments, etc. Also, maximum acceptable levels are specified according to the rankings of the countries and taking into account their credit ratings, political, economic and other factors.

For the classification of a country as “High Risk” country, the Non-Investment Grade status of countries which as per the CRR is the worst, out of the best two ratings from Moody’s, Fitch and S&P was considered, the Euromoney Score of the countries and the assessment of the macro economic outlook and prospects of each country were primarily considered.

Some of the debt securities listed in the table below, based on the three level hierarchy depending on the significance of the inflows used to determine fair value, are classified in Level 2 and 3.

Category “Other countries” includes less material exposures in a number of countries.

For the year ended 31 December 2017 Cyprus was reclassified out of the high risk countries. The continuous upgrades of the economy by the rating agencies over the year 2017, the successful access to the international markets in 2017 (with the lowest historical yield), the successful completion of the Memorandum of Understanding in 2016, the better than expected economic performance of the country in 2017 (one of the fastest growing economies in the Eurozone) and the better than expected performance of public finances in 2017 (economy is now operating on a 2% budget surplus) were some of the reasons for this decision.

The analysis of concentration of credit risk in countries with high credit risk at the reporting date is shown below:

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.3 Credit risk (continued)

At 31 December 2017

	Greece €'000	Lebanon €'000	Serbia €'000	Ukraine €'000	South Africa €'000	Russia €'000	Kazakhstan €'000	Egypt €'000	Other countries €'000	Total €'000
Assets held for trading										
<i>Government Bonds</i>										
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-
<i>Bank Bonds</i>										
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-
<i>Derivatives</i>										
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-
Assets classified as held to maturity										
<i>Government bonds</i>										
Carrying value (amortised cost)	3.984	-	-	-	-	-	-	-	-	3.984
Fair value	3.987	-	-	-	-	-	-	-	-	3.987
Assets classified as loans and receivables										
<i>Government bonds</i>										
Carrying value (amortised cost)	-	-	-	-	-	-	-	-	-	-
Fair value	-	-	-	-	-	-	-	-	-	-
<i>Deposits in other banks</i>										
Carrying value (amortised cost)	143	-	-	-	82	34.865	-	-	338	35.428
Fair value	143	-	-	-	82	34.865	-	-	338	35.428
<i>Loan and advances to customers</i>										
Carrying value (amortised cost)	68.457	530	377	1.085	1.519	19.245	118	5.582	638	97.551
Accumulated impairment losses	(596)	(1)	(486)	(2.176)	(710)	(7.172)	(148)	(7)	(1.283)	(12.579)
Fair value	66.792	504	365	1.071	1.476	18.327	115	5.378	617	94.645
Assets available for sale										
<i>Government bonds</i>										
Nominal value	-	-	-	-	-	-	-	-	-	-
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	-
<i>Bank Bonds</i>										
Nominal value	-	-	-	-	-	-	-	-	-	-
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-
Accumulated impairment losses	-	-	-	-	-	-	-	-	-	-
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	-
<i>Other bonds</i>										
Nominal value	-	-	-	-	-	-	-	-	-	-
Carrying value (amortised cost)	-	-	-	-	-	-	-	-	-	-
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	-
Total book value	72.584	530	377	1.085	1.601	54.110	118	5.582	976	136.963

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.3 Credit risk (continued)

At 31 December 2016

Assets held for trading	Cyprus €'000	Greece €'000	Lebanon €'000	Italy €'000	Serbia €'000	Hungary €'000	Ukraine €'000	South Africa €'000	Russia €'000	Kazakhstan €'000	Egypt €'000	Other countries €'000	Total €'000
<i>Government Bonds</i>													
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Bank Bonds</i>													
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Derivatives</i>													
Carrying value (fair value)	1.238	-	-	-	-	-	-	-	-	-	-	-	1.238
Assets classified as held to maturity													
<i>Government bonds</i>													
Carrying value (amortised cost)	8.423	-	-	-	-	-	-	-	-	-	-	-	8.423
Fair value	8.287	-	-	-	-	-	-	-	-	-	-	-	8.287
Assets classified as loans and receivables													
<i>Government bonds</i>													
Carrying value (amortised cost)	299.360	-	-	-	-	-	-	-	-	-	-	-	299.360
Fair value	302.096	-	-	-	-	-	-	-	-	-	-	-	302.096
<i>Deposits in other banks</i>													
Carrying value (amortised cost)	24.792	452	-	283	-	169	-	247	22.311	-	-	245	48.499
Fair value	24.792	452	-	283	-	169	-	247	22.311	-	-	245	48.499
<i>Loan and advances to customers</i>													
Carrying value (amortised cost)	2.815.781	40.814	587	65	549	-	1.036	1.845	27.400	131	361	1.597	2.890.166
Accumulated impairment losses	(1.334.314)	(526)	(4)	(50)	(570)	-	(2.324)	(533)	(6.785)	(147)	(2)	(1.192)	(1.346.447)
Fair value	2.713.645	39.196	559	63	506	-	1.027	1.805	25.302	127	358	1.540	2.784.128
Assets available for sale													
<i>Government bonds</i>													
Nominal value	314.011	-	-	-	-	-	-	-	-	-	-	-	314.011
Carrying value (fair value)	335.406	-	-	-	-	-	-	-	-	-	-	-	335.406
Accumulated amount of the fair value reserve	5.117	-	-	-	-	-	-	-	-	-	-	-	5.117
<i>Bank Bonds</i>													
Nominal value	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying value (fair value)	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated impairment losses	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Other bonds</i>													
Nominal value	-	-	-	-	-	-	-	-	-	-	-	-	-
Carrying value (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
Total book value	3.485.000	41.266	587	348	549	169	1.036	2.092	49.711	131	361	1.842	3.583.092

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks

Market and Liquidity Risk Management

The Assets and Liabilities Management Committee (ALCO) is responsible for implementing the policy of the Bank's Board of Directors regarding the risks and profitability arising from the Group's assets and liabilities. Market and Liquidity Risk Management is responsible for the assessment, monitoring and management of Group market and liquidity risks within the framework of risk policies and limits defined by ALCO.

The Group's approach towards market and liquidity risk management is to concentrate these risks for all Group business units under the Treasury department. Treasury manages risks using a framework of activities and limits approved by ALCO. The Risk Management Unit is responsible for developing policies and processes for managing the risks and for their daily assessment and monitoring. Policies are reviewed at regular time intervals and are approved by ALCO, the Board Risk Management Committee and the Board of Directors itself.

47.4.1 Liquidity Risk

Liquidity risk is the risk of decrease in profits or capital, arising from a weakness of the Bank to meet its immediate obligations, without incurring additional costs. The Group's approach in managing liquidity risk is to ensure, to the extent possible (considering that the main role of the Bank as an intermediary is to accept short term deposits and grant long term loans), that there is adequate liquidity in order to satisfy its obligations, when they arise, under "normal" circumstances as well as under stress conditions, without the Group incurring any additional costs.

The Group currently operates mainly in Cyprus. The management of the liquidity of the Group's banking units (including compliance with regulatory limits), is undertaken by the Treasury department and is locally effected depending on the conditions prevailing in the various markets.

The Group places emphasis on the maintenance of stable customer deposits, as they represent one of its basic funding sources. This is mainly achieved through the maintenance of good and long standing relationships of trust with customers and through competitive and transparent pricing strategies, also taking into consideration the liquidity position of the Bank.

Regular stress testing scenarios are performed to simulate extreme conditions and appropriate measures are taken whenever necessary.

The liquidity risk of the Bank is monitored daily by Market and Liquidity Risk Management.

The Group must comply with the Liquidity Coverage Ratio (LCR) as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements Regulation (EU) No 575/2013 (CRR) of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions). The LCR was in effect from 1 October 2015 with a regulatory limit of 60% increasing to 100% from 1 January 2018 when the full phase-in of the requirement is effected.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

The Group's LCR ratio was as follows:

	2017	2016
	%	%
At 31 December	277,00	270,00
Average for the year	293,00	357,00
Maximum percentage for the year	310,00	485,00
Minimum percentage for the year	276,00	264,00

Additionally, the Bank monitors the Net Stable Funding Ratio (NSFR) which also stems from CRR and which was expected to be officially introduced on 1 January 2018. Even though the official introduction of this ratio as a regulatory limit is being delayed, the Bank calculated this as per the Basel III requirements on a quarterly basis, with an expected minimum regulatory level of 100%.

The Group's NSFR ratio was as follows:

	2017	2016
	%	%
At 31 December	158,00	157,00
Average for the year	159,00	147,00
Maximum percentage for the year	160,00	157,00
Minimum percentage for the year	157,00	137,00

In managing liquidity risk in Euro, the Group calculated and monitored, among other ratios, the liquid assets ratio required by the Central Bank Directive on Prudential Liquidity in Euro. Liquid assets comprise of cash, interbank deposits and debt securities. The Bank has been in compliance with the regulatory minimum requirement for this ratio which was set at 20% for most of 2017 (from 15 September 2017 up to the end of the year 2017 the regulatory minimum was lowered by CBC to 18%).

The liquid assets ratio for the Euro was as follows:

	2017	2016
	%	%
At 31 December	53,19	44,08
Average for the year	47,49	43,48
Maximum percentage for the year	53,82	47,41
Minimum percentage for the year	43,12	38,07

At Group level, the liquidity in all foreign currencies is being monitored on an aggregate basis according to the relevant Directive of the Central Bank of Cyprus on Prudential Liquidity in foreign currency. The Bank has been in compliance with the regulatory minimum requirement for this ratio which was set at 70% for most of 2017 (from 15 September 2017 up to the end of the year 2017 the regulatory minimum was lowered to 50% by CBC).

The liquid assets ratio in foreign currencies was as follows:

	2017	2016
	%	%
At 31 December	63,40	86,38
Average for the year	78,17	83,06
Maximum percentage for the year	88,44	90,62
Minimum percentage for the year	54,87	66,02 ¹

(Note 1: This figure fell below the regulatory limit for three days, immediately following the successful exit of Cyprus from its economic and financial adjustment program).

The ratio is calculated based on items expressed in all foreign currencies other than Euro.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

The liquid assets of the Group, calculated in accordance with the instructions of the Central Bank of Cyprus for the purposes of Prudential Liquidity in Euro and foreign currencies as at 31 December, were as follows:

	2017 €'000	2016 €'000
Cash and balances with Central Banks	2.293.754	2.083.444
Placements with other banks	200.551	420.534
Debt securities	858.332	945.417
Equity securities & Collective investment units	14.585	6.412
	3.367.222	3.455.807

On 20 December 2017, CBC announced the abolition of its prudential liquidity limits from 1 January 2018, in accordance with CRR. A “national macroprudential liquidity measure” has been introduced from 1 January 2018, which comprises of additional liquidity requirements in the form of “add-on” rates on some of the LCR parameters and additional requirements in the form of add-on rates on some other items which are not subject to any outflow rates according to the LCR regulation and these are imposed on top of the current LCR Regulation. This national macroprudential measure will be in force until 31 December 2018, with the add-ons being relaxed by 50% as from 1 July 2018. However, CBC might extend this national macroprudential liquidity measure further, following its monitoring of the use of the resulting excess liquidity by the banks. The Bank is currently in full compliance with this new LCR add-on.

Analysis of financial liabilities of the Group based on their remaining contractual maturity as at 31 December 2017

	Carrying amount €'000	Gross nominal (inflows)/ outflows €'000	On demand €'000	Within three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000
Financial liabilities							
Deposits by banks	176.355	176.505	97.347	17.726	61.432	-	-
Customer deposits and other customer accounts	5.808.125	5.814.920	3.428.841	1.295.960	943.043	144.675	2.401
Derivatives	5.212						
- Cash inflows		(465.476)	(117.212)	(308.338)	(20.098)	(19.828)	-
- Cash outflows		469.811	118.000	311.302	20.509	20.000	-
Tax payable	5.263	5.263	5.263	-	-	-	-
Deferred tax liability	2.498	2.498	-	-	-	2.498	-
Other liabilities	147.221	147.214	123.088	3.712	20.379	35	-
Loan capital	139.667	139.829	-	60	10.101	-	129.668
	6.284.341	6.290.564	3.655.327	1.320.422	1.035.366	147.380	132.069

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

Analysis of financial liabilities of the Group based on their remaining contractual maturity at 31 December 2016

	Carrying amount €'000	Gross nominal (inflows)/ outflows €'000	On demand €'000	Within three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000
Financial liabilities							
Deposits by banks	100.652	100.674	74.309	16.830	9.535	-	-
Customer deposits and other customer accounts	6.111.088	6.119.753	3.687.878	1.133.329	1.191.723	104.427	2.396
Derivatives	4.227						
- Cash inflows		(154.898)	(59.348)	(95.550)	-	-	-
- Cash outflows		156.457	60.000	96.457	-	-	-
Tax payable	5.422	5.422	5.422	-	-	-	-
Deferred tax liability	1.980	1.980	-	-	-	1.980	-
Other liabilities	111.924	107.691	84.798	6.909	7.549	6.955	1.480
Loan capital	139.667	140.073	-	60	183	10.162	129.668
	6.474.960	6.477.152	3.853.059	1.158.035	1.208.990	123.524	133.544

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

The table below presents the encumbered and unencumbered assets:

31 December 2017

	The Group				The Bank			
	Carrying amount of encumbered assets		Carrying amount of unencumbered assets		Carrying amount of encumbered assets		Carrying amount of unencumbered assets	
	of which European Central Bank's eligible		of which European Central Bank's eligible		of which European Central Bank's eligible		of which European Central Bank's eligible	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans on demand*	155	-	2.445.040	-	155	-	2.433.134	-
Equity instruments	-	-	30.037	-	-	-	9.232	-
Debt securities	-	-	1.018.902	55.339	-	-	1.018.092	55.339
Loans and advances other than loans on demand	97.441	-	2.810.852	-	97.441	-	2.810.852	-
Other assets	-	-	444.210	-	-	-	424.545	-
Total assets	97.596	-	6.749.041	55.339	97.596	-	6.695.855	55.339

31 December 2016

	The Group				The Bank			
	Carrying amount of encumbered assets		Carrying amount of unencumbered assets		Carrying amount of encumbered assets		Carrying amount of unencumbered assets	
	of which European Central Bank's eligible		of which European Central Bank's eligible		of which European Central Bank's eligible		of which European Central Bank's eligible	
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans on demand*	618	-	2.110.285	-	618	-	2.097.634	-
Equity instruments	-	-	16.008	-	-	-	8.503	-
Debt securities	-	-	1.149.132	55.482	-	-	1.142.704	55.482
Loans and advances other than loans on demand	110.361	-	3.283.442	-	110.361	-	3.284.449	-
Other assets	-	-	367.758	-	-	-	350.156	-
Total assets	110.979	-	6.926.625	55.482	110.979	-	6.883.446	55.482

*Loans on demand include Balances with Central Banks and Placements with other Banks receivable on demand.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

47.4.2 Market Risk

Market risks are derived from the change in the value of the Group's statement of financial position and the uncertainty in the stream of future earnings, resulting from changes in market conditions (volatility in foreign exchange, interest rates and market prices).

The Group has defined its strategy and methods of continuous monitoring for the control of market risk undertaking and the prudential management of these risks. More specifically, this is achieved mainly through the implementation of position and stop loss limits for foreign currency and other trading limits. In addition, the Bank maintains an approved Investment Framework with various limits, such as a limit on Bonds and Syndicated loans, limit on total investments, limits per issuer group, limits on maturities and limits on Value-at-Risk.

The Bank carries out its activities involving foreign currency through correspondence banks for the respective currencies. For the major currencies, the Bank maintains three bank relationships for USD, including one which is a full service relationship, three bank relationships for GBP, four bank relationships for RUB, and two bank relationships for CHF.

The table below presents the distribution of assets and liabilities that are subject to market risk between trading and non-trading portfolios:

	Carrying amount €'000	The Group		Carrying amount €'000	The Bank	
		Trading portfolios €'000	Non-trading portfolios €'000		Trading portfolios €'000	Non-trading portfolios €'000
31 December 2017						
Assets						
Cash and balances with Central Banks	2.293.754	-	2.293.754	2.293.753	-	2.293.753
Derivatives	229	229	-	229	229	-
Placements with other banks	348.176	-	348.176	336.272	-	336.272
Loans and advances to customers	2.766.738	-	2.766.738	2.766.738	-	2.766.738
Debt ,equity securities & Collective Investments Units	1.048.939	450	1.048.489	1.027.321	450	1.026.871
	6.457.836	679	6.457.157	6.424.313	679	6.423.634

	Carrying amount €'000	The Group		Carrying amount €'000	The Bank	
		Trading portfolios €'000	Non-trading portfolios €'000		Trading portfolios €'000	Non-trading portfolios €'000
31 December 2017						
Liabilities						
Derivatives	5.212	5.212	-	5.212	5.212	-
Deposits	5.984.480	-	5.984.480	5.984.480	-	5.984.480
Loan capital	10.000	-	10.000	10.000	-	10.000
Subordinated loan capital	129.667	-	129.667	129.667	-	129.667
	6.129.359	5.212	6.124.147	6.129.359	5.212	6.124.147

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

	The Group			The Bank		
	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000
31 December 2016						
Assets						
Cash and balances with Central Banks	2.083.444	-	2.083.444	2.083.443	-	2.083.443
Derivatives	10.926	10.926	-	10.926	10.926	-
Placements with other banks	548.902	-	548.902	537.259	-	537.259
Loans and advances to customers	2.926.033	-	2.926.033	2.926.033	-	2.926.033
Debt ,equity securities & Collective Investments						
Units	1.165.140	293	1.164.847	1.151.207	293	1.150.914
	6.734.445	11.219	6.723.226	6.708.868	11.219	6.697.649

	The Group			The Bank		
	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000
31 December 2016						
Liabilities						
Derivatives	4.227	4.227	-	4.227	4.227	-
Deposits	6.211.740	-	6.211.740	6.211.740	-	6.211.740
Loan capital	10.000	-	10.000	10.000	-	10.000
Subordinated loan capital	129.667	-	129.667	129.667	-	129.667
	6.355.634	4.227	6.351.407	6.355.634	4.227	6.351.407

47.4.2.1 Foreign Exchange Risk

Foreign exchange risk arises from the undertaking of an open position in one or more foreign currencies. Market and Liquidity Risk Management monitors foreign currency positions on an ongoing basis within the risk management framework and the limits set by ALCO and the regulatory authorities. Within this framework, there are nominal limits (by currency, in total, during the day, end-of-day), gain/loss limits and Value-at-Risk (VaR) limits. The regulatory limits for open positions during working hours exceed the limits for open positions during non-working hours.

The VaR methodology is an important tool for the monitoring of foreign exchange risk. With this methodology, the Group calculates the maximum potential loss that may be incurred as a result of changes in market conditions, at a confidence level of 99% and over an one day period (using the parametric method) based on the historical data of foreign exchange rate parities over a period of one year.

The table below presents VaR figures for the Group's foreign exchange risk:

	2017 €'000	2016 €'000
At 31 December	11	11
Average for the year	10	9
Maximum amount for the year	76	20
Minimum amount for the year	4	3

The limitations of the VaR methodology are derived from the fact that the historical data used in the calculation may not be indicative of future events.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group by currency as at 31 December 2017

	Euro €'000	US Dollar €'000	British pound €'000	Rouble €'000	Swiss Franc €'000	Other currencies €'000	Total €'000
Assets							
Cash and balances with Central Banks	2.290.152	2.134	1.388	11	28	41	2.293.754
Placements with other banks	61.481	196.016	23.076	40.771	2.372	24.460	348.176
Loans and advances to customers	2.568.556	137.064	5.235	7	50.311	5.565	2.766.738
Debt securities	721.498	274.800	22.604	-	-	-	1.018.902
Equity securities & Collective investment units	30.037	-	-	-	-	-	30.037
Property, plant and equipment	102.541	-	-	-	-	-	102.541
Intangible assets	34.254	-	-	-	-	-	34.254
Tax receivable	553	-	-	-	-	-	553
Investment in associate company	7.600	-	-	-	-	-	7.600
Deferred tax asset	12.286	-	-	-	-	-	12.286
Other assets	231.090	561	48	1	-	96	231.796
Total assets	6.060.048	610.575	52.351	40.790	52.711	30.162	6.846.637
Liabilities							
Deposits by banks	122.866	51.817	-	1.672	-	-	176.355
Customer deposits and other customer accounts	4.671.809	975.104	97.691	39.116	3.785	20.620	5.808.125
Tax payable	5.263	-	-	-	-	-	5.263
Deferred tax liability	2.498	-	-	-	-	-	2.498
Other liabilities	148.720	2.076	-	-	1.520	117	152.433
	4.951.156	1.028.997	97.691	40.788	5.305	20.737	6.144.674
Loan capital	139.667	-	-	-	-	-	139.667
Equity							
Share capital	99.237	-	-	-	-	-	99.237
Reserves	459.648	-	-	-	-	-	459.648
Equity attributable to shareholders of the parent company							
	558.885	-	-	-	-	-	558.885
Non-controlling interests	3.411	-	-	-	-	-	3.411
	562.296	-	-	-	-	-	562.296
Total liabilities and equity	5.653.119	1.028.997	97.691	40.788	5.305	20.737	6.846.637
Total position	406.929	(418.422)	(45.340)	2	47.406	9.425	
Effect of foreign currency derivatives on position	(411.729)	419.747	45.363	-	(46.462)	(6.919)	
Net currency position	(4.800)	1.325	23	2	944	2.506	

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group by currency at 31 December 2016

	Euro €'000	US Dollar €'000	British pound €'000	Rouble €'000	Swiss Franc €'000	Other currencies €'000	Total €'000
Assets							
Cash and balances with Central Banks	2.078.900	2.751	1.500	56	65	172	2.083.444
Placements with other banks	35.601	324.001	102.568	43.296	3.611	39.825	548.902
Loans and advances to customers	2.687.988	123.205	7.062	4	94.899	12.875	2.926.033
Debt securities	685.982	463.150	-	-	-	-	1.149.132
Equity securities & Collective investment units	16.008	-	-	-	-	-	16.008
Property, plant and equipment	99.648	-	-	-	-	-	99.648
Intangible assets	26.526	-	-	-	-	-	26.526
Tax receivable	127	-	-	-	-	-	127
Deferred tax asset	8.465	-	-	-	-	-	8.465
Other assets	167.303	11.760	161	-	-	95	179.319
Total assets	5.806.548	924.867	111.291	43.356	98.575	52.967	7.037.604
Liabilities							
Deposits by banks	53.668	46.984	-	-	-	-	100.652
Customer deposits and other customer accounts	4.614.673	1.308.763	108.249	43.277	4.662	31.464	6.111.088
Tax payable	5.422	-	-	-	-	-	5.422
Deferred tax liability	1.980	-	-	-	-	-	1.980
Other liabilities	104.547	3.096	2.899	-	900	482	111.924
	4.780.290	1.358.843	111.148	43.277	5.562	31.946	6.331.066
Loan capital	139.667	-	-	-	-	-	139.667
Equity							
Share capital	99.237	-	-	-	-	-	99.237
Reserves	464.252	-	-	-	-	-	464.252
Equity attributable to shareholders of the parent company							
	563.489	-	-	-	-	-	563.489
Non-controlling interests	3.382	-	-	-	-	-	3.382
	566.871	-	-	-	-	-	566.871
Total liabilities and equity							
	5.486.828	1.358.843	111.148	43.277	5.562	31.946	7.037.604
Total position	319.720	(433.976)	143	79	93.013	21.021	
Effect of foreign currency derivatives on position	(319.714)	434.156	(147)	-	(93.615)	(20.680)	
Net currency position	6	180	(4)	79	(602)	341	

47.4.2.2 Interest rate risk

Interest rate risk is the Bank's exposure to adverse movements in interest rates and it arises mainly as a result of timing differences on the interest rate repricing of assets, liabilities and off-balance sheet items.

Interest rate risk is managed through the monitoring of the interest rate gaps by currency, by time interval and in total (gap analysis). In the gap analysis and in the calculation of the Economic Value of Equity shown below, a proportion of demand and savings deposits is assumed to be more stable (core deposits) and is slotted in time buckets with an average maturity of three years.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group based on their contractual repricing or maturity dates at 31 December 2017

	Non-interest bearing €'000	Within one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Total €'000
Assets							
Cash and balances with Central Banks	55.178	2.238.576	-	-	-	-	2.293.754
Placements with other banks	17.649	330.527	-	-	-	-	348.176
Loans and advances to customers	-	614.562	1.910.442	225.479	10.432	5.823	2.766.738
Debt securities	-	45.666	50.114	115.306	268.817	538.999	1.018.902
Equity securities & Collective investment units	9.231	-	5.992	3.545	11.269	-	30.037
Investment in associate company	7.600	-	-	-	-	-	7.600
Property, plant and equipment	102.541	-	-	-	-	-	102.541
Intangible assets	34.254	-	-	-	-	-	34.254
Tax receivable	553	-	-	-	-	-	553
Deferred tax asset	12.286	-	-	-	-	-	12.286
Other assets	231.796	-	-	-	-	-	231.796
Total assets	471.088	3.229.331	1.966.548	344.330	290.518	544.822	6.846.637
Liabilities							
Deposits by banks	-	97.419	17.689	61.247	-	-	176.355
Customer deposits and other customer accounts	-	3.164.358	479.000	1.306.684	687.473	170.610	5.808.125
Tax payable	5.263	-	-	-	-	-	5.263
Deferred tax liability	2.498	-	-	-	-	-	2.498
Other liabilities	152.433	-	-	-	-	-	152.433
	160.194	3.261.777	496.689	1.367.931	687.473	170.610	6.144.674
Loan capital	129.667	-	10.000	-	-	-	139.667
Total liabilities	289.861	3.261.777	506.689	1.367.931	687.473	170.610	6.284.341
Total position	181.227	(32.446)	1.459.859	(1.023.601)	(396.955)	374.212	562.296
Nominal value of interest rate derivatives							
	-	-	-	5.000	(5.000)	-	-
Net position	181.227	(32.446)	1.459.859	(1.018.601)	(401.955)	374.212	562.296

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group based on their contractual repricing or maturity dates at 31 December 2016

	Non-interest bearing €'000	Within one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	Total €'000
Assets							
Cash and balances with Central Banks	54.672	2.028.772	-	-	-	-	2.083.444
Placements with other banks	22.438	526.464	-	-	-	-	548.902
Loans and advances to customers	-	209.832	2.450.848	253.834	7.067	4.452	2.926.033
Debt securities	-	94.416	49.749	161.762	369.341	473.864	1.149.132
Equity securities & Collective investment units	8.503	-	-	-	7.505	-	16.008
Property, plant and equipment	99.648	-	-	-	-	-	99.648
Intangible assets	26.526	-	-	-	-	-	26.526
Tax receivable	127	-	-	-	-	-	127
Deferred tax asset	8.465	-	-	-	-	-	8.465
Other assets	179.319	-	-	-	-	-	179.319
Total assets	399.698	2.859.484	2.500.597	415.596	383.913	478.316	7.037.604
Liabilities							
Deposits by banks	-	74.361	11.105	15.186	-	-	100.652
Customer deposits and other customer accounts	-	3.182.626	582.732	1.512.406	665.881	167.443	6.111.088
Tax payable	5.422	-	-	-	-	-	5.422
Deferred tax liability	1.980	-	-	-	-	-	1.980
Other liabilities	111.924	-	-	-	-	-	111.924
	119.326	3.256.987	593.837	1.527.592	665.881	167.443	6.331.066
Loan capital	129.667	-	10.000	-	-	-	139.667
Total liabilities	248.993	3.256.987	603.837	1.527.592	665.881	167.443	6.470.733
Total position	150.705	(397.503)	1.896.760	(1.111.996)	(281.968)	310.873	566.871
Nominal value of interest rate derivatives							
	-	5.744	33.829	(48.896)	9.323	-	-
Net position	150.705	(391.759)	1.930.589	(1.160.892)	(272.645)	310.873	566.871

In addition to monitoring interest rate gaps, interest rate risk management is carried out mainly by monitoring the sensitivity of the Group's Economic Value of Equity and Net Interest Income under various scenarios of interest rate changes.

Market and Liquidity Risk Management monitors interest rate positions on a continuous basis, within the risk management framework and limits set by ALCO. ALCO is regularly informed about the magnitude of interest rate risk and makes decisions for the management of the risk based on this information. Scenario calculations for interest rate changes consider both parallel and non-parallel shifts of the yield curve.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

The table below presents the impact on the Group's economic value of equity from a change of ± 100 basis points in interest rates by currency at year end:

2017				
	Euro €'000	US Dollar €'000	Other currencies €'000	Total €'000
Change (€000)				
+100 basis points	(15.333)	3.771	976	(10.586)
-100 basis points	17.087	(3.975)	(1.013)	12.099
2016				
	Euro €'000	US Dollar €'000	Other currencies €'000	Total €'000
Change (€000)				
+100 basis points	(13.979)	416	1.342	(12.221)
-100 basis points	15.594	(542)	(1.342)	13.710

In the calculation of Economic Value of Equity sensitivity, for the discounting needed to perform the calculations, the risk-free yield curve was used for each currency.

The tables below present the impact on net interest income (over the next 12 months) as a result of a change of ± 100 basis points in interest rates by currency at year end:

2017				
	Euro €'000	US Dollar €'000	Other currencies €'000	Total €'000
Change (€000)				
+100 basis points	23.548	6.762	1.213	31.523
-100 basis points	(23.548)	(6.762)	(1.213)	(31.523)
2016				
	Euro €'000	US Dollar €'000	Other currencies €'000	Total €'000
Change (€000)				
+100 basis points	23.093	16.215	1.321	40.629
-100 basis points	(23.093)	(16.215)	(1.321)	(40.629)

It is noted that under current conditions, the reduction in interest rates by 100 basis points is theoretical since market rates for the Euro and most foreign currencies for which the Bank holds positions, besides US dollar, are low. For the calculations of Net Interest Income sensitivity, for current accounts it is assumed that interest rates will change by only 15 basis points in the Euro and that they will remain unchanged in foreign currencies.

47.4.2.3 Price Risk

Price risk is derived from the undertaking of an open position in equities, bonds or derivatives. The Group manages this risk through policies and procedures of setting and monitoring open position limits, stop loss limits on trading positions, as well as concentration limits by issuer.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.4 Market and Liquidity Risks (continued)

The table below presents the impact on financial results and own funds (including the impact from changes in net profits) from reasonably possible changes in equity prices which are traded on stock exchanges:

	2017		2016	
	Net profits €'000	Own Funds €'000	Net profits €'000	Own Funds €'000
+15% change in index	67	1.317	44	1.232
-15% change in index	(67)	(1.317)	(44)	(1.232)

47.5 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Group, this definition includes legal, conduct and reputational risk, but excludes strategic risk.

The Bank has adopted the principles and provisions set out in the guidelines of the Directives of the Central Bank of Cyprus, the Single Supervisory Mechanism, Basel III as adopted by the EU and the Committee for European Banking Supervisors (CEBS).

A strong framework for the management of operational risk has been developed by adopting operational risk principles in line with Basel Committee's sound principles and taking into account the Bank's risk appetite and tolerance. Governance structures have been developed to ensure that these principles are met at all times. The financial insurance coverage held by the Bank is regarded as an effective tool for mitigating operational risks and forms part of its framework.

The management of operational risks, which begins by their identification and ends with the implementation of an appropriate mitigation action, constitutes one of the priorities of the Bank. This involves all employees and is integrated into the various decision-making processes within the Bank.

The BoD supports the development of a robust operational risk management culture where the roles of business and control functions under a three lines of defence model, are well defined and respected. The Board encourages open discussion, challenge and thorough analyses of operational risks identified, so as to ensure that they are appropriately managed within the Bank's risk appetite.

The management of Operational Risks is supported and overseen by an independent Operational Risk Unit under the Chief Risk Officer. The Operational & Emerging Risk Unit is empowered to oversee operational risk management. This is effected through establishing and providing support in implementing and embedding relevant policies, responsibly aligning them with risk appetite and strategy goals. Internal Audit provides assurance. Indicative examples of control mechanisms are the effective segregation of duties, access authorization and reconciliation procedures, ongoing staff training and assessment processes as well as the utilization of operational risk indicators.

The "Risk Control Self-Assessment" process is being implemented by identified Units with the cooperation of Operational & Emerging Risk Unit. This process identify and assesses risks inherent in their specific processes and activities as well as post control implementation, in their, residual risk state basis. Integrated controls and measures for managing and monitoring operational risks also form part of this process including where appropriate Risk Indicators. Where necessary, additional remedial actions are being identified and included in relevant action plans.

A holistic and efficient IT solution has been deployed for operational risk incident management purposes, as well as to enhance operational risk assessment, management and reporting. The system's functionality embraces the requirements of operational-risk-related Units, such are Information Security, Business Continuity, Health, Safety & Security, Compliance and Audit.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.5 Operational risk (continued)

Operational Risk Unit informs on regular intervals the Management and Risk Committee of the Board of Directors of the operational risks the Group faces.

47.6 Capital management

Capital management ensures compliance with the regulatory requirements, which are set by the responsible Regulatory Bodies for banks in Cyprus. According to the European Council's Regulation (EC) 1024/2013, specific tasks concerning policies relating to the prudential supervision of credit institutions have been assigned to the European Central Bank (ECB). Since 4 November 2014 the ECB has taken on full responsibility for the supervision of important credit institutions in participating Member States, including the Group, with the assistance of the local supervisory authorities. The Central Bank of Cyprus (CBC), as part of its supervisory role, has adopted the recommendations of the Basel Committee and the European Directives on banking supervisory matters.

Effective from 1 January 2014, the European Parliament's and Council's Directive 2013/36/EU (CRD IV) and the Regulation (EU) No 575/2013 (CRR) of 26 June 2013 became effective comprising the European regulatory package designed to transpose the new capital, liquidity and leverage standards of Basel III into the European Union's legal framework.

The Regulation (EU) No 575/2013 (CRR) establishes the prudential requirements for capital, liquidity and leverage that credit institutions need to abide by and is immediately binding on all European Union Member States. The Directive 2013/36/EU (CRD IV) governs access to deposit-taking activities and internal governance arrangements including remuneration, board composition and transparency, while it also sets out additional capital buffer requirements. Unlike the Regulation (EU) No 575/2013 (CRR), the Directive 2013/36/EU (CRD IV) has been transposed into national law. The Regulation (EU) No 575/2013 (CRR) introduces significant changes in the prudential and regulatory regime applicable to banks including amended minimum capital adequacy ratios, changes to the definition of capital, changes in the calculation of risk-weighted assets and the introduction of new measures relating to leverage, liquidity coverage requirements and net stable funding requirements.

The CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which will be largely fully effective by 1 January 2018, and some other transitional provisions with phase-in until 2024 (the latest).

Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017, was issued amending Regulation (EU) No 575/2013, regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State. According to the Regulation, institutions are allowed to include in their CET 1 capital and leverage ratios a portion of the increased expected credit loss provisions from the introduction of IFRS 9 for a transitional period. The transitional period has a maximum duration of five years and starts in 2018. The portion of expected credit loss provisions that can be included in CET 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.

47.6.1 Regulatory developments

In December 2017, the Basel Committee published the revisions to the Basel III framework. Basel III reforms complement the initial phase of Basel III reforms published in 2010, and seek to restore credibility in the calculation of risk-weighted assets (RWAs) and improve the comparability of banks' capital ratios.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.6 Capital management (continued)

The Basel III reforms include changes to the risk weights under the standardised approach for credit risk and market risk, replacement of the operational risk approach with a single standardised approach, amended rules for the calculation of credit valuation adjustment (CVA), revised definition of the exposure measure for the leverage ratio, introduction of leverage ratio buffer for global systemically important banks (G-SIBs) and revised output floor to limit the amount of regulatory capital benefit a bank can obtain using internal models relative to the standardised approaches.

The Basel III reforms will be implemented on 1 January 2022. For the output floor a five-year transitional provisions will be applied from that date, commencing at the rate of 50%.

The Bank is in the process of examining the revised framework in order to be prepared for the effects of these amendments.

The wide-ranging nature of these revisions means that they will have to be applied in the EU through substantial revisions to the CRR (CRR II) and through a new round of EBA technical standards and guidance.

Basel III framework comprises of three Pillars:

- Pillar I – Enhanced minimum capital and liquidity requirements
- Pillar II – Enhanced supervisory review process for firm-wide risk management and capital planning
- Pillar III – Enhanced risk disclosure and market discipline

47.6.2 Pillar I – Enhanced minimum capital and liquidity requirements

47.6.2.1 Capital Requirements

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

Credit Risk

The Group has adopted the Standardised Approach for the calculation of the minimum capital requirements against credit risk. Under this approach, exposures are classified in specified classes and are weighed using specific weights, depending on the class the exposures belong to, their credit rating and/or the characteristics of the exposure. Also, the Basel framework suggests two alternative methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Group has applied the Comprehensive Approach, as it allows for a fairer recognition and better measurement of the Group's collaterals.

Market Risk

Regarding market risk, the Group has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the capital requirements of positions on interest rates, equity and debt securities, foreign exchange and derivatives derived from the trading portfolio using predefined models, by risk category.

Operational Risk

The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk. Under the Basic Indicator Approach, the own funds requirement for operational risk is equal to 15% of the average of three years of the relevant indicator as set out in Article 316 of the CRR. The relevant indicator is based on the sum of the Group's net interest income and its net non-interest income after certain qualification adjustments.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.6 Capital management (continued)

Regulatory Capital

The Group's regulatory capital is calculated in accordance with the provisions of the European Regulation 575/2013 and is analysed as follows:

Common Equity Tier 1 capital

Common Equity Tier 1 (CET 1) capital includes share capital, share premium, reduction of share capital reserve, retained earnings including the profit/loss for the year, the revaluation reserve (i.e. revaluation reserve of investments in debt securities, revaluation reserve of investments in equity securities and property revaluation reserve) and other reserves such as translation reserve.

The carrying amount of goodwill and other intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from CET 1 capital subject to the transitional provisions of the relevant CBC circular (R.A.A. 393/2014).

Additionally, the Group's contribution to the Investors Compensation Fund, as per the requirements of Circular 162 issued on 10 October 2016 by the Cyprus Securities and Exchange Commission (CySEC) and value adjustments due to the requirements for prudent valuation as per Article 105 of Regulation (EU) No 575/2013 are deducted from CET 1 capital.

With regards to the Bank's significant investments in financial sector entities, including its investments in subsidiary companies which operate in the insurance sector and deferred tax assets that rely on future profitability and arise from temporary differences, the Bank applied the exemption from deduction from CET 1 capital in accordance with the provisions of Article 470 of the CRR and these items are risk weighted at 250%.

Additional Tier 1 capital

Additional Tier 1 (AT1) capital includes hybrid instruments, composed by Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2).

The carrying amount of intangible assets is deducted from AT1 capital, subject to the transitional provisions of the relevant CBC circular (R.A.A. 393/2014).

Tier 2 capital

Tier 2 capital includes subordinated loan capital. In addition, other transitional adjustments in relation to property revaluation reserve are added to Tier 2 capital.

The Group's Capital policy aims to ensure the viability of the Bank through the maintenance of an appropriate level of capital, so as to meet regulatory requirements and internal buffers set, safeguard the best interests of shareholders and support its business strategy.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.6 Capital management (continued)

The position of the Group's regulatory capital and risk weighted assets as at 31 December was as follows:

	2017	2016
	€'000	€'000
Own funds		
Common Equity Tier 1 (CET 1)	483.005	517.549
Additional Tier 1 (AT1)	<u>122.454</u>	<u>119.085</u>
Tier 1 (T1)	605.459	636.634
Tier 2 (T2)	<u>5.121</u>	<u>8.846</u>
Total regulatory capital	<u>610.580</u>	<u>645.480</u>
Risk weighted assets		
Credit risk	3.005.974	3.271.474
Market risk	3.938	9.318
Operational risk	408.688	460.788
Total risk exposure amount for credit valuation adjustments (CVA)	<u>1.034</u>	<u>1.925</u>
Total risk weighted assets	<u>3.419.634</u>	<u>3.743.505</u>

The Capital Adequacy Ratios of the Group and the Bank under Pillar I, which are above the minimum regulatory requirements, were as follows:

Capital Adequacy Ratios	Group (transitional basis) ¹		Group (fully loaded basis)	Bank (transitional basis)	Minimum regulatory capital requirements (SREP 2016) ²
	31 December 2017	31 December 2016	31 December 2017	31 December 2017	31 December 2017
Capital Adequacy Ratio (%)	17,86%	17,24%	17,67%	17,80%	12,75%
Tier 1 Ratio (%)	17,71%	17,01%	17,63%	17,65%	10,75%
Common Equity Tier 1 (CET 1) Ratio (%)	14,12%	13,83%	13,84%	14,07%	9,25%

(Note 1: Transitional provisions are fully effective by 1 January 2018.)

(Note 2: Excluding Pillar II capital guidance.)

The Group's minimum phase-in Capital Adequacy Ratio, effective from 1 January 2017, was set at 12,75%, which includes, minimum Pillar I own funds requirements of 8%, own funds Pillar II requirement of 3,5% and a phase-in capital conservation buffer (CCB) of 1,25%. This was based on Supervisory Review and Evaluation Process 2016 (SREP 2016) conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2015, and also having regard to other relevant information received thereafter.

Moreover, the Group's minimum CET 1 and Tier 1 ratios, effective as from 1 January 2017, were set at 9,25% and 10,75% respectively.

Furthermore, the Bank is prohibited from making distributions to shareholders until 31 December 2017.

In addition to the above, effective as from 1 January 2017 the ECB has provided on a consolidated basis, a Pillar II capital guidance to be made up entirely of CET 1 capital.

The increase in CET 1 ratio compared to 31 December 2016, was the result of the combination of a decrease in CET 1 capital, primarily due to the increase in provisions for impairment losses and provisions to cover credit risk, and a decrease in risk weighted assets, due to the decrease in net funded defaulted exposures.

Supervisory Review and Evaluation Process 2017 (SREP 2017)

In December 2017, following ECB's final decision in establishing prudential requirements, the Bank is required to maintain for 2018 (SREP 2017), on a consolidated basis, a phase-in Capital Adequacy Ratio of 13,075%, which includes:

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.6 Capital management (continued)

- the minimum Pillar I own funds requirements of 8% in accordance with Article 92(1) of Regulation (EU) No 575/2013 (of which up to 1,5% can be met with Additional Tier 1 Capital and up to 2% with Tier 2 Capital),
- an own funds Pillar II requirement of 3,2% required to be held in excess of the minimum own funds requirement (to be made up entirely of CET 1 Capital) (SREP 2016: 3,5%),
- and a phased in combined buffer requirement which for 2018 includes the capital conservation buffer (CCB) of 1,875% (SREP 2016: 1,25%), which have to be made up with CET 1 capital.

Additionally, applicable for Hellenic Bank, the combined buffer requirement includes:

- an O-SII buffer of 1% fully loaded and is phased in over a period of four years with application starting from 1 January 2019,
- a Counter-Cyclical Capital Buffer (CCyB) for which the CBC has set the level at 0% for exposures located in Cyprus for 2016, 2017 and for the first and second quarter of 2018 (the Institution specific CCyB for 2016 and 2017 was 0%),
- a Systemic Risk Buffer (currently applicable only for exposures located in Estonia of credit institutions authorised in Cyprus, for which the CBC reciprocated the macroprudential Estonian measure. For Hellenic Bank these exposures are immaterial).

Furthermore, the Bank shall refrain from making distributions to its shareholders.

Taking into account the above, the Group's minimum CET 1 and Tier 1 ratios effective as from 1 January 2018 are set at 9,575% and 11,075% respectively.

In addition to the above, effective as from 1 January 2018 the ECB has provided on a consolidated basis, a revised Pillar II capital guidance to be made up entirely of CET 1 capital, which has been reduced.

47.6.2.2 Liquidity and Leverage Ratio Requirements

CRR sets forth the guidelines for calculating liquidity measures such as the Liquidity Coverage Requirement Ratio (LCR) and the Net Stable Funding Ratio (NSFR). LCR is calculated as the sum of high quality liquid assets over the expected net liquidity outflows during the next 30 days, as these net outflows are specified under a stress scenario. At times of stress, institutions may use their liquid assets to cover their net liquidity outflows. The LCR of the Group was at 277% as at 31 December 2017 compared to 270% as at 31 December 2016.

NSFR is defined as the amount of available stable funding (the portion of capital and liabilities expected to be reliable over the one year horizon) over the amount of required stable funding (based on the liquidity characteristics and residual maturities of the various assets held and off-balance sheet exposures). The ratio has a one year horizon and should be at least 100%. The NSFR of the Group was at 158% as at 31 December 2017 compared to 157% as at 31 December 2016.

Additionally, Pillar I sets forth the guidelines for calculating the leverage ratio as an institution's capital measure divided by the institution's total exposure measure expressed as a percentage.

The leverage ratio of the Group is calculated using two capital measures:

- (a) Tier 1 capital: fully phased-in definition
- (b) Tier 1 capital: transitional definition

According to the Regulation No.2015/62 of the European Parliament and Council dated 10 October 2014, as at 31 December 2017 the Leverage Ratio for the Group was 8,59% (Bank: 8,57%) compared to 8,75% (Bank: 8,74%) as at 31 December 2016. The Leverage Ratio on a fully loaded basis for the Group was formed at 8,56% (Bank: 8,54%) compared to 8,71% (Bank: 8,70%) as at 31 December 2016.

Notes to the Financial Statements

47. RISK MANAGEMENT (continued)

47.6 Capital management (continued)

Even before its full implementation expected to be sometime in 2018, and as per relevant CBC instructions, the Net Stable Funding Ratio (NSFR) is being monitored by the Bank and reported quarterly to CBC.

47.6.3 Pillar II – Enhanced supervisory review process for firm-wide risk management and capital planning

Pillar II aims at enhancing the link between an institution's risk profile, risk management, risk mitigation systems and its capital planning. Pillar II is divided into two major components, the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).

The ICAAP is reviewed and evaluated by the Single Supervisory Mechanism (SSM) as part of its SREP, which occurs periodically and contributes to SSM's assessment of capital adequacy and additional own funds requirements.

ICAAP is an integral part within the holistic risk management approach at Hellenic Bank. It is integrated with the Bank's strategic processes, including the Risk Appetite Framework and Business as well as Capital Planning.

During 2017, the Bank conducted the ICAAP to arrive at a forward-looking assessment of its capital requirements taking into account the business strategy, risk profile and risk appetite utilising internal stress tests. The ICAAP incorporated the assessment of the Bank's risk management processes and governance framework.

47.6.4 Pillar III – Enhanced risk disclosure and market discipline

The Pillar III report of the Group sets out both quantitative and qualitative disclosures required in accordance with Part 8 'Disclosures by Institutions' of the Regulation (EU) No 575/2013 and the EBA's final standards on revised Pillar III disclosures issued in December 2016 and LCR disclosures that are applicable from 31 December 2017. EBA Guidelines cover Articles 431 to 455 of the CRR and specify the Pillar III framework requirements.

The report provides additional information to allow market participants to have a full picture of the risk profile of the Group, to assess key pieces of information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Group.

The Pillar III report is published annually by the Group at the end of April.

48. 2018 EU-WIDE STRESS TEST

The European Banking Authority (EBA) launched the 2018 EU wide stress test exercise, designed to provide supervisors, banks and other market participants with a common analytical framework to consistently compare and assess the resilience of EU banks to economic shocks. For the first time, it incorporates IFRS 9 accounting standards. No pass-fail threshold has been included as the results of the exercise are designed to serve as an input to the Supervisory Review and Evaluation Process (SREP) under which decisions are made on appropriate capital resources. The EU-wide stress test is conducted on a sample of 48 EU banks covering roughly 70% of the banking sector in the EU and is run at the highest level of consolidation. The stress test involves the economic conditions under a baseline and an adverse scenario and were published by EBA on 31 January 2018.

Given that the majority of institutions supervised by the Single Supervisory Mechanism (SSM) are not included in the 2018 EBA Stress Test (Hellenic Bank included), the ECB will also carry out a designated stress test for such institutions, to support the 2018 SREP, with strong involvement of the National Competent Authorities.

Notes to the Financial Statements

49. EVENTS AFTER THE REPORTING PERIOD

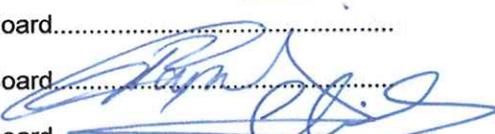
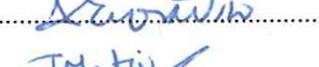
There are no events after the reporting period to be disclosed in the Financial Statements.

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

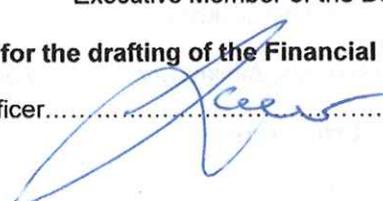
In accordance with article 9(3)(c) and (7) of the 2007 Law on Transparency Requirements (Securities Listed for Trading on a Regulated Market), we the Members of the Board of Directors and the Bank officials responsible for the drafting of the Financial Statements of Hellenic Bank Public Company Ltd (the Bank) for the year ended 31 December 2017, confirm that to the best of our knowledge:

- (a) the annual Financial Statements presented in pages 16 to 140
 - (i) have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and the provisions of article (9), paragraph (4) of the Cyprus Companies Law, and
 - (ii) give a true and fair view of the assets and liabilities, the financial position and the profits or losses of Hellenic Bank Public Company Ltd and of the entities included in the Consolidated Financial Statements, as a whole and
- (b) the Management Report provides a fair review of the developments and performance of the business as well as the position of Hellenic Bank Public Company Ltd and of the entities included in the Consolidated Financial Statements, as a whole, together with a description of the major risks and uncertainties that they face.

Members of the Board of Directors:

Dr Evripides A. Polykarpou	Non-Executive Chairman of the Board.....	
Marinos S. Yannopoulos	Non-Executive Vice Chairman	
Andreas Christofides	Non-Executive Member of the Board.....	
Irena A. Georgiadou	Non-Executive Member of the Board.....	
Marianna Pantelidou Neophytou	Non-Executive Member of the Board.....	
David Whalen Bonanno	Non-Executive Member of the Board.....	
Lambros Papadopoulos	Non-Executive Member of the Board.....	
Christodoulos A. Hadjistavris	Non-Executive Member of the Board.....	
Andrew Charles Wynn	Non-Executive Member of the Board.....	
Stephen John Albutt	Non-Executive Member of the Board.....	
Demetris Efstathiou	Non-Executive Member of the Board.....	
Ioannis A. Matsis	Executive Member of the Board.....	
Lars Kramer	Executive Member of the Board.....	

Company official responsible for the drafting of the Financial Statements

Lars Kramer, Chief Financial Officer.....


Nicosia, 29 March 2018

HELLENIC BANK PUBLIC COMPANY LIMITED

REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE FOR THE YEAR 2017

INTRODUCTION

The Board of Directors of Hellenic Bank Public Company Limited (“the Company” or “the Bank”) fully adopted the Code of Corporate Governance, which was published by the Cyprus Stock Exchange (4th revised edition – April 2014), hereinafter referred to as “the Code”. In compliance with the provisions included in the Code’s introduction, the Board of Directors of the Company (“the Board” or “BOD”) incorporates the present Report on Corporate Governance in the Company’s 2017 Annual Report.

PART A

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

PART B

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

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

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

Board of Directors

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

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

The Board of Directors has the overall responsibility for:

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

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

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

On 31st December 2017, the Board was composed of eleven non-Executive Directors and two Executive Directors, all of whom have the appropriate qualifications and broad relevant experience. The Board's composition as at 31st December 2017, as well as the changes in the composition and distribution of responsibilities of the Board throughout the year and up to the date of the present Report, appear in the Directors' Report for the year 2017.

During 2017, the Board of Directors held twenty-seven meetings. In accordance with the provisions of the Directive to Credit Institutions on Governance and Management Arrangements in Credit Institutions of 2014 of the Central Bank of Cyprus ("the Governance Directive"), one of the abovementioned meetings was held without the presence of the Chairwoman and without the presence of the Executive Directors, was chaired by the Senior Independent Director and its purpose was to assess the performance of the Chairwoman of the Board of Directors and two of the abovementioned Board meetings were held without the presence of the Executive Directors.

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

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

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

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

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

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

(1) Independent Non-Executive Directors in 2017

Based on the provisions of the Code and for the purposes of this Report, the following are the Independent Non-Executive Directors in 2017:

- Dr Evripides A. Polykarpou, Senior Independent Director (Fulfilling the duties of the Chairperson of the

Board as from 24th May 2017)*

- Irena A. Georgiadou, Chairperson (Until 24th May 2017)*
- Marianna Pantelidou Neophytou**
- Ioannis A. Matsis (Independent Non-Executive Director until 24th April 2017) ***
- David Whalen Bonanno**
- Christodoulos A. Hadjistavris**
- Andreas Christofides
- Lambros Papadopoulos
- Andrew Charles Wynn
- Stephen John Albutt
- Demetrios Efstathiou (Appointed on 29th May 2017).

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

(2) Non-Independent Non-Executive Directors in 2017

- Marinos S. Yannopoulos, Vice Chairman.

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

(3) Executive Directors in 2017

- Ioannis A. Matsis, Executive Director / Chief Executive Officer (from 24th April 2017)***
- Georgios Fereos, Executive Director (until 10th July 2017)
- Lars Kramer, Executive Director (from 10th July 2017).

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

(4) Chief Executive Officer

- Ioannis A. Matsis (from 24th April 2017). ***

Notes:

* As from 24th May 2017, Dr Evripides A. Polykarpou is fulfilling the duties of the Chairperson of the Board of Directors of the Bank until the completion of the process for the appointment of a new Chairperson.

On 7th November 2017 the Company announced that, at its meeting held on 6th November 2017, the Board of Directors decided to appoint Mr Youssef A. Nasr as a Member of the Board of Directors of the Bank. The appointment is subject to approval by the European Central Bank and will take effect when a Board position becomes available. Following approval from the European Central Bank and appointment to the Board of Directors of Hellenic Bank, Mr Nasr will be proposed for the position of the Chairperson of the Board.

** Under the independence criteria listed in the Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions of 2014 of the Central Bank of Cyprus, which differ from those of the Corporate Governance Code, Mrs Marianna Pantelidou Neophytou, Mr Christodoulos A. Hadjistavris and Mr David Whalen

Bonanno are not independent.

*** On 15th December 2016, the Bank announced that Mr Bert Pijls had stepped down from the position of Executive Director / Chief Executive Officer, strictly on personal and family reasons and, at the same time, announced that the Board of Directors had decided to appoint Mr. Ioannis A. Matsis as Chief Executive Officer, replacing Mr Pijls. The appointment of Mr Matsis was subject to approval from the Regulatory Authorities. In the meantime, the duties of the Chief Executive Officer were officiated by Mr Phivos Stasopoulos, Group General Manager, Business & Insurance. Following approval of his appointment by the European Central Bank, Mr Ioannis A. Matsis is the Chief Executive Officer and Executive Member of the Board of Directors of the Bank as from 24th April 2017.

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

Directors' Induction and Ongoing Development

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

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

Evaluation of Performance of the Board of Directors

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

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

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

In the first quarter of 2018 the Board of Directors performed the annual evaluation of the Board and its Committees for 2017.

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

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

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

Corporate Governance Framework

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

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

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

The Corporate Governance Framework is reviewed at least annually.

Approval, Revision and Review of Policies, Frameworks and Charters

During 2017 and 2018 until the date of this Report, taking into account the provisions of the Governance Directive and within the framework of the continuous efforts of the Company to improve its Corporate Governance, the Board has approved or revised or reviewed, inter alia, the following Policies and/or Frameworks and/or Charters:

- Corporate Governance Framework
- Self-Assessment and External Evaluation (Board's Chairperson, Board Committees and Board Members) Policy
- Board Nomination, Evaluation, Selection, Succession and Ongoing Assessment Policy
- Policy on the Recruitment, Ongoing Assessment and Succession of Key Function Holders
- Rotation Policy
- Code of Business Conduct and Ethics
- Anti-Bribery & Corruption Policy
- Anti-Money Laundering, Counter-Terrorism Financing & Economic Sanctions Policy
- Conflicts of Interest Policy
- Whistleblowing Policy
- Market Abuse Policy
- Compliance Charter and Framework
- Compliance Policy
- Internal Audit Charter
- Risk Management Charter
- Risk Appetite Framework
- Risk Appetite Statement
- Liquidity and Funding Risk Management Framework
- Market Risk Management Framework
- Liquidity Risk Policy
- Market Risk Policy
- Interest Rate Risk Policy
- Funding Policy
- Information Security Charter
- Information Security Policy
- Vendor and Outsourcing Management Policy
- Customer Acceptance Policy
- Investment Framework
- Capital & Leverage Policy
- Stress Testing Policy
- Credit Cycle Monitoring Policy
- Business Continuity Policy
- Products & Services Management Policy
- Health, Safety and Security Policy
- Compliance Policy to the Pillar 3 Disclosure requirements as per CRR / CRD IV
- Restructuring Policy
- Asset Repossession, Management & Sales Policy
- Reputation Risk Management Policy

- Data Protection Policy
- Impairment Policy
- Disciplinary Code

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

Percentages of Major Shareholders as at 26 March 2018

The percentage of the Shareholders holding more than five per cent of the Company's issued share capital as at 26 March 2018 are as follows:

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

(6) Remuneration Policy Report

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

Information on the remuneration / fees of the Members of the Board of Directors and the Executive Directors for the year 2017 is disclosed in the notes to the Accounts contained in this Annual Report (Note 38) as well as in the Remuneration Policy Report itself.

(7) Going Concern

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

(8) System of Internal Control

The Board of Directors has ensured that the Bank maintained an effective System of Internal Control in 2017. The adequacy and effectiveness of the System of Internal Control is reviewed by the Board at least annually. The review covers all systems of internal control, including financial and operational systems, as well as compliance systems and systems for the management of risks that threaten the attainment of the Group's objectives.

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

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

- Operate on the basis of a specific organisational structure and allocation of responsibilities;
- Prepare and monitor the implementation of the strategic and business plans and annual budgets;

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

The effectiveness of the System of Internal Control is reviewed on a more regular basis by the Audit and Risk Management Committees through regular reports to the Board. In carrying out their reviews, the Audit and Risk Management Committees receive reports on internal controls, both financial and non-financial, internal audit reports, external audit reports and regulatory reports.

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

The Internal Audit Unit reports directly to the Audit Committee and the Board of Directors itself. It consists of 32 persons and is headed by Mrs. Niki Nicolaidou-Hadjixenophontos (B.Sc. Honours in Financial Services, M.B.A., A.C.I.B., F.C.C.A.).

The following audit assignments have been outsourced in 2017 to external audit firms:

- (a) Audit of the Insurance subsidiary companies of the Group (Pancyprian Insurance and Hellenic Alico Life),
- (b) Audit of the security and adequacy of the internal network,
- (c) Outsourcing of three specialised technical IT audits.

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

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

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

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

In 2017 Messrs KPMG, External Auditors of the Company, offered non-audit services e.g. tax services, general and specialised advisory services, review of various returns, training seminars, etc. Their objectivity and independence are ensured in the following ways:

- (a) Non-auditing services are offered by different companies / departments of the KPMG Group in accordance with the professional code of certified accountants / auditors (“Chinese Walls”).
- (b) The KPMG team that carries out the external audit of the Company does not participate in offering any other services except auditing.
- (c) The offer of non-audit services by the External Auditors is monitored by the Audit Committee in a manner which, aims to ensure that their objectivity and independence are not compromised.

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

(11) Credit Facilities to Directors

Information as to credit facilities provided to Company Directors (and related parties) is to be found in the relevant notes to the Financial Statements contained within the present Annual Report (Note 38). It is confirmed that credit facilities to Company Directors (and related parties) or to its subsidiary or associated company Directors are granted in the normal course of the Company's business, under normal commercial and employment terms and with transparency. Furthermore, it is confirmed that all relevant cases of Bank facilities to Company Directors and its subsidiary company Directors are forwarded for approval to the Board, after the relevant proposal of the Board's Audit Committee. The interested Member of the Board is neither present nor participates in the procedure.

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

On 22nd January 2018, the Company appointed Mrs Maria Vovides-Iliescu as Executive Officer ensuring compliance with the Code of Corporate Governance to replace Mrs Eleni Christodoulidou, who has left the Bank.

(13) Board Committees

The following Board Committees operate within the Company:

(a) Audit Committee

Chairperson: Lambros Papadopoulos

Members: Christodoulos A. Hadjistavris
Dr Evripides A. Polykarpou (Until 29th May 2017)
Andreas Christofides
Stephen John Albutt
Irena A. Georgiadou (From 29th May 2017).

(b) Remuneration Committee

Chairperson: Evripides A. Polykarpou (From 29th May 2017)
Irena A. Georgiadou (Until 29th May 2017)

Members: David Whalen Bonanno
Christodoulos A. Hadjistavris
Lambros Papadopoulos
Stephen John Albutt.

(c) Nominations / Internal Governance Committee

Chairperson: Irena A. Georgiadou

Members: Marianna Pantelidou Neophytou
David Whalen Bonanno
Dr Evripides A. Polykarpou
Demetrios Efstathiou (From 7th June 2017).

(d) Risk Management Committee

Chairperson: Andrew Charles Wynn

Members: Marianna Pantelidou Neophytou
Marinos S. Yannopoulos
Andreas Christofides
Demetrios Efstathiou (From 7th June 2017).

The terms of reference of the above Committees are based both on the relevant provisions of the Code pertaining to them and the relevant guiding Directives of the Central Bank of Cyprus. They are published in paragraph 14 below while those of the Remuneration Committee are included in the Remuneration

Policy Report. Within the framework of the provisions of the Code concerning relations with Shareholders, the Chairpersons of these Committees are available to answer any questions at the Annual General Meeting, at which all shareholders are encouraged to participate. The Chairpersons and Members of the Committees periodically submit reports or proposals to the Board of Directors following meetings of the corresponding Committees, depending on the subjects being addressed.

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

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

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

During 2017, the Audit Committee held twenty two meetings, two of which were held jointly with the Risk Management Committee.

The Committee's Chairperson has university degree in Accounting with Computing (B.A.(Hons)). He is a Chartered Accountant - Member of the Institute of Chartered Accountants in England and Wales as from 1996. He has extensive senior executive and non-executive experience in capital markets, banking, finance, auditing and accounting.

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

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

The Risk Management Committee meets whenever necessary and at least twice every quarter. During 2017, the Committee held twenty two meetings, two of which were held jointly with the Audit Committee.

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

which the Company has the right to appoint Members of the Board, either for positions extraordinarily vacated or after the retirement of Board Members.

The Committee's suggestions and the Group's Remuneration Policy take into consideration the relevant responsibilities, workload, qualifications, know-how, academic background, experience, individual performance, remuneration of comparable positions in the market, especially in areas where the Group is active, remuneration at other levels in the Group as well as non-financial criteria e.g. compliance with applicable rules and procedures. The Committee's aim is to attract and retain good quality officers at Executive and General Management levels, in order to better serve the interests of the Group as well as those of its Shareholders and other stakeholders.

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

During 2017, the Remuneration Committee held four meetings.

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

During 2017, the Nominations / Internal Governance Committee held twelve meetings.

(14) Terms of Reference of the Board of Directors' Committees (except the Remuneration Committee)

Terms of Reference of the Audit Committee

1. Establishment / Mission

The Audit Committee was established to ensure Hellenic Bank Public Company Limited ("the Company") complies with the Directives published by the Central Bank of Cyprus in accordance with the provisions of the Business of Credit Institutions Laws.

The primary mission of the Committee is to ensure the fulfilment, in a reliable and effective manner, of the obligations imposed on the Company by the abovementioned Directives, the compliance with the relevant provisions of the Code of Corporate Governance issued by the Cyprus Stock Exchange and to review and challenge, where necessary, Group policies, practices, controls and actions and judgement of the management team that contribute to the sound management and conduct of the operations and activities of the Company.

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

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

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

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

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

The Audit Committee as a whole should have:

- (a) Recent and relevant practical experience in the area of financial markets or professional experience directly linked to financial markets activity and
- (b) Knowledge of the Group's broader business environment, including information systems, technology, compliance and internal audit.

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

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

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

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

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

3. Meetings of the Committee

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

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

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

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

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

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

4. Decision-making Process

4.1 The Committee is authorized by the Board to:

- (a) Investigate any activity within its Terms of Reference,
- (b) Seek any information and clarifications from any employee of the Company. All employees are required to co-operate with any request made by this Committee.

4.2 The decisions of the Committee are taken by majority voting. In the event of an equality of votes, the Chairperson of the meeting shall not have a second or casting vote.

5. Duties and Responsibilities

The duties and responsibilities of the Committee are the following:

5.1 Financial Statements

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

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

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

- (a) Changes to critical accounting policies and practices,
- (b) Decisions requiring a significant element of judgement,
- (c) Unusual transactions and how these are disclosed.

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

5.2 External Audit

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

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

- (a) Seeking from the Auditors information about the policies and procedures for maintaining independence and compliance with relevant requirements, at least on an annual basis,
- (b) Seeking reassurance that the Auditors and their staff have no family, financial, employment or business relationship with the Company (other than in the normal course of business),
- (c) Discussing with the Auditors the threats to independence and applicable safeguards as well as the key issues related to independence in the Auditors' Additional Report to the Audit Committee and mitigation actions,
- (d) Taking account of the Audit Firm's Partners rotation policy,
- (e) Overseeing the Auditors' compliance with the reporting requirements in relation to the Audit Report and the Auditors' Additional Report to the Audit Committee,
- (f) Monitoring the history of new key management staff joining the Group in relation to previous employment by the incumbent Auditors.

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

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

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

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

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

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

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

5.2.10 It monitors the volume, nature, fees and extent of permissible non-auditing services provided by:

- (a) The Auditors at Group level, aiming to maintain the balance between objectivity and the value added by the services offered.
- (b) In the case where non-auditing services are offered to a subsidiary or affiliated company of the Bank and the volume is such that it downgrades the objectivity of their audits, the Committee informs the corresponding Committee (where it exists) of the subsidiary company or its Board of Directors.
- (c) The Committee is informed, at least once a year, by Finance, about the nature, extent and fees for non-auditing services or other advisory duties of the Auditors.

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

5.3 Internal Audit

5.3.1 It approves and evaluates the Internal Audit Charter.

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

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

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

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

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

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

- 5.3.8 It submits to the Board reports regarding the following:
- (a) Proposals for addressing any weaknesses of the internal control systems and information systems, which have been identified based on reports of the Internal Audit Unit and the observations and comments of the external Auditors and the competent supervisory authorities.
 - (b) Matters relating to the independence and smooth execution of the audit work carried out by the Internal Audit Unit.
- 5.3.9 (a) It confirms that the Company assigns the assessment of the adequacy of the Internal Control System, on an individual and consolidated base, to external Auditors who have the necessary experience.
- (b) It evaluates the findings of the above assessment and proposes corrective measures to the Board.
- 5.3.10 It ensures that the Internal Audit Unit has adequate resources and appropriate standing within the Company.

5.4 Compliance

- 5.4.1 It assesses and monitors the independence, adequacy and effectiveness of the Compliance Unit.
- 5.4.2 It submits to the Board its recommendations on the appointment and replacement of the Head of the Compliance Unit.
- 5.4.3 It assesses, on an annual basis, the performance of the Head of the Compliance Unit and submits his/her annual appraisal to the Board.
- 5.4.4 It advises the Board, drawing on the work of the Compliance Unit, on the adequacy and effectiveness of the Framework for Business Conduct.
- 5.4.5 It advises the Board, drawing on the work of the Compliance Unit and external Auditors, on the adequacy and effectiveness of the Compliance Framework (including the Compliance Monitoring Programme and Compliance Policies). Anti-Money Laundering Compliance is not included therein but it is the direct responsibility of the Board to monitor.
- 5.4.6 The Compliance Unit submits its annual audit plan and budget to the Audit Committee for approval, ensuring that they are sufficiently flexible to adapt to variations in response to developments.
- 5.4.7 It reviews the quarterly and annual compliance reports submitted by the Head of the Compliance Unit, which are subsequently submitted to the Board. The annual reports of the Money Laundering Compliance Officer are submitted directly to the Board.
- 5.4.8 It ensures that the Compliance Unit has adequate resources.

5.5 Miscellaneous Issues

- 5.5.1 It assigns to the Internal Audit Unit or to independent experts, following the authorisation of the Board, the investigation of any matters which fall within its mission and responsibilities.
- 5.5.2 It requests information from Management on the significant risks to which the Group is exposed; it evaluates the measures taken by the Management and the Board to minimise these risks and submits its recommendations for the improvement of those measures.
- 5.5.3 It investigates any other important data, information or facts that concern and influence the performance and operation of the Company or its compliance with the laws and regulations that govern it.
- 5.5.4 It oversees that Senior Management takes the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by external Auditors, the Internal Audit and Compliance Units and the supervisory authorities.

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

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

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

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

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

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

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

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

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

6. Validity and Amendments of the Terms of Reference

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

7. Code of Corporate Governance

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

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

1. Establishment / Mission

The Board Risk Management Committee ('BRMC') of Hellenic Bank Public Company Limited

(‘the Company’ or ‘the Bank’) was established to fulfil the following mission:

- 1.1 Set a well-defined and clearly communicated strategy for risk management throughout the Bank and embedding of the Risk Appetite Framework (‘RAF’);
- 1.2 Promote and embed a culture of risk awareness and appropriate risk taking across the Bank and assist the Management Body in implementing the strategy;
- 1.3 Ensure compliance with all required laws and regulations including but not limited to the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus’ and European Central Bank’s Directives and requirements, and the Cyprus Stock Exchange’s Code of Corporate Governance in relation to Risk Management and Information Security;
- 1.4 Periodically review the Bank’s Enterprise Risk Management Framework and
- 1.5 Ensure that Risk Management fulfills its responsibilities and obligations concerning the identification, measurement, monitoring and effective management of all Group risks.

2. Composition of the Risk Management Committee

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

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

The Chairperson of the Committee is appointed by the Board.

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

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

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

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

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

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

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

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

The Company Secretariat must ensure minutes of the Committee’s meetings and decisions are

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

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

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

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

4. Duties and Responsibilities of the Risk Management Committee

The Committee shall carry out the duties set out below:

Framework and Policies

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

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

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

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

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

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

Risk Appetite / Risk Strategy

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

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

- (i) The development of mechanisms to ensure material exposures that are close to or exceed approved risk limits are managed and, where necessary, mitigated in an effective and timely manner;
- (ii) The identification and escalation of breaches in risk limits and of material risk exposures in a timely manner;

- (iii) Submitting proposals and recommendations for corrective actions whenever weaknesses are identified in implementing the risk strategy;
- (iv) Embedding attitudes around risk taking, management and control in line with the Board's communicated Strategy and Risk Appetite Statement.

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

Capital Management

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

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

Liquidity Management

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

Risk Data Aggregation and Reporting

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

Pillar 3 Disclosures

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

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

Remuneration

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

Control Functions

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

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

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

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

- information;
- (iii) the adequacy of provisions and effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds, adequate to cover the risks of the Company.

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

Risk Management Information

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

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

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

- (i) the quarterly reports submitted by the Head of the Risk Management Function within two months from the end of each quarter and inform the Board accordingly;
- (ii) the annual reports submitted by the Head of the Risk Management Function and the Head of Information Security within two months from the end of each year and submit these to the Board, accompanied by the Committee's assessment of the reports;
- (iii) the relevant reports prepared by Internal Audit Unit, subsidiary Boards and/or Risk Committees and the regulators and oversee that corrective measures are implemented where these are necessary;
- (iv) the monthly Risk Management Information Report ("MIR") by 20th of the month following each calendar month end.

4.19 Promote the development of relevant Early Warning Indicators.

Evaluation of Risks

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

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

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

Committee Governance

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

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

4.25 The Chairperson of the Committee shall be available for personal, telephone, electronic or written

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

Terms of Reference of the Nominations / Internal Governance Committee

1. Role of the Nominations / Internal Governance Committee

The Nominations / Internal Governance Committee was established to ensure that Hellenic Bank Public Company Limited ('the Company') complies with the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus' Directives and the Cyprus Stock Exchange's Code of Corporate Governance.

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

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

2. Composition of the Nominations / Internal Governance Committee

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

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

The Chairperson of the Committee is appointed by the Board.

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

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

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

The Committee shall meet whenever necessary and at least on a quarterly basis.

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

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

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

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

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

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

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

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

Board Evaluation

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

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

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

Board Succession Plans

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

Policies

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

- (a) Appointment of Board Members, including the necessary qualifications that an individual should possess in order to serve as a member of the Board of Directors of any of the Group's companies and
- (b) Board diversity, including a target representation of the underrepresented gender and how to reach and maintain this target.

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

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

Board and CEO Appointments

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

In identifying candidates the Committee shall:

- (a) Consider candidates from a wide range of backgrounds;
- (b) Pay due regard to the Fitness and Probity requirements and
- (c) Consider candidates on merit and against objective criteria, as defined in the relevant policy, with due regard to the benefits of diversity, taking care that appointees will have sufficient time to devote to the position.

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

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

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

Appointment of the Direct Reports to the CEO

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

Fitness and Probity

4.13 At least annually, conduct Fitness and Probity evaluation of each Member of the Board, based on the relevant criteria defined in the Directive on the Assessment of Fitness and Probity of Members of the Management Body and Managers of Authorised Credit Institutions of 2014 of the Central Bank of Cyprus and report the outcome of such evaluations to the Board.

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

Control Functions

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

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

Internal Governance Arrangements

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

Committee Governance

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

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

Annual General Meeting

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

Reporting to the Central Bank of Cyprus

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

Job Descriptions

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

4.23 The Committee is responsible for:

- (a) ensuring that prior to being appointed, members of the Board are required to disclose any other business interests and continue to do so on a continuous basis following their appointment to the Board;
- (b) assessing whether any interests or relationships declared by members of the Board present an actual or potential conflict of interest and
- (c) approving members of the Board requests related to directorships with other companies or intra-Group.

5. Code of Corporate Governance

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

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

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

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

Mr Constantinos Pittalis has been appointed as Investor Relations Officer (tel. 22500794, e-mail: investor.relations@hellenicbank.com).

(16) Rotating Directors eligible for Re-Election

Members of the Board retire on a rotating basis or retire according to the relevant provisions of the Company's Articles of Association and the relevant provisions of the Companies Law and the Code (at least every three years). The retiring Directors, who are eligible and will offer themselves for re-election at the Annual General Meeting of the Shareholders on 23rd May 2018, are the following (brief curriculum vitae included):

(a) David Whalen Bonanno

Born on 14 December 1981 in Glen Cove, New York. Studied Psychology (B.A.) at Harvard University in the United States of America.

Commenced his career in 2004 in the Financial Advisory Firm Rothschild Inc. as an Analyst in the Restructuring Group and afterwards, as from 2006, worked in the private investment firm Cerberus Capital Management L.P. as an Associate in the Private Equity and Distressed Investment Group. In 2008 took over as Managing Director of the Investment Fund Third Point LLC. In charge of the long-term equity investments of Third Point Hellenic Recovery Fund in Greece and Cyprus and Third Point's investments in the Financial Technology sector.

Elected Member of the Board of Directors of Hellenic Bank on 28 May 2014. Member of the Nominations / Internal Governance and Remuneration Committees of the Bank's Board of Directors.

Also non-executive Director of Social Finance, Inc., Neptune Financial Inc. and Energean E&P Holdings Ltd.

(b) Andreas Christofides

Born on 15 October 1976 in Nicosia. Studied Economics (B.Sc.) at the London School of Economics and Political Science, Economics (Master Degree) at Bocconi University in Milan and Business Administration (M.B.A.) at INSEAD.

Commenced his career in 2001 in SanPaolo IMI Asset Management SGR in Milan, where for the next 3 years was a member of the Asset Allocation Team, defining and implementing investment strategy. Post M.B.A., in 2006, joined Credit Suisse AG as Vice President in Zurich, in the position of Senior Portfolio Manager in the Premium Mandates Team, Asset Management Division. Subsequently, in 2007, joined the Private Banking Division, based in Lugano, and worked as Head Investment Consulting Services in Credit Suisse Monaco and for Premium clients in Lugano. Chaired the Product Committee of Credit Suisse Monaco, participated in the Product Committee of the Italian market and contributed to the Global Investment Products and Services Committee of the Private Banking Division. Promoted to Director in 2011 and became Market Leader and Head of Poland / Eastern Europe, Private Banking Division, based in Zurich. Served on the Central and Eastern Europe Management Committee of Credit Suisse AG, on the Executive Committee of the Private Banking Division for the markets of Greece / Poland / Eastern Europe and was Co-chair of the Product Committee for these markets. Based in Nicosia since August 2014 and is the founder / executive Director of Granfeld Wealth Management Limited, a Cyprus Investment Firm authorised and regulated by the Cyprus Securities and Exchange Commission.

Appointed Member of the Board of Directors of Hellenic Bank on 3 July 2015. Member of the Audit and Risk Management Committees of the Bank's Board of Directors.

(c) Lambros Papadopoulos

Born on 26 August 1971 in Limassol. Graduated from the Lanitio Lyceum B' in Limassol and studied Accounting with Computing (B.A.(Hons)) at the University of Kent at Canterbury in the United Kingdom. A Member of the Institute of Chartered Accountants in England and Wales since 1996.

Commenced his career in 1993 with Ernst & Young in London and for the next five years worked in the Audit (Media & Resources) and Corporate Finance (Business Valuations) Divisions. From 1998 to 2012 worked with Citigroup (London) as Head of Greece / Cyprus Equity Research and Head of Continental

European Small and Mid Caps (in the period 2011-2012). Since 2006 held the position of Managing Director and was also a member of the Equity Research Operating Committee. Served on the interim Board of Directors of the Bank of Cyprus in 2013 and chaired the Audit Committee. Currently also an independent non-executive Member of the Board of Directors of Trastor Real Estate Investment Company S.A., where he chairs the Audit Committee and an independent non-executive Director of Global Ports Investments PLC.

Appointed Member of the Board of Directors of Hellenic Bank on 3 July 2015. Chairman of the Audit Committee and Member of the Remuneration Committee of the Bank's Board of Directors.

(d) Andrew Charles Wynn

Born on 3 July 1955 in England. Fellow of the Chartered Institute of Management Accountants (1994) and holder of Securities Institute Certificate in Corporate Finance (2003).

Commenced his career in 1973 assuming audit and accounting roles at US company Avery Label and UK government owned business Remploy. For the period 1977 to 1995 served at Security Pacific Holdings Group, a UK finance group including a UK authorised bank, being appointed Chief Executive Officer in 1991. In 1996 joined investment bank Nomura International Principal Finance Group, in London, as an Associate Director. Subsequently, in 1998 joined Credit Suisse First Boston Principal Transactions Group, in London, as Vice President. His role included strategy development and implementation, due diligence and operational control of its outside businesses. In 2002 he moved to Dresdner Kleinwort Principal Finance Group in London, as Director, to lead major / complex transactions and strengthen its healthcare portfolio investment. In 2004 he joined Lehman Brothers European Structured Finance Group in London, as Director / Head of Risk. Subsequently, in 2008, he joined AnaCap Financial Partners in London as Director Risk and Liabilities.

Since 2010 he is the founder and owner of Clipper Consulting, a UK based global due diligence and risk consultancy, specialising in Non Performing Loans' due diligence, servicing and resolution. Also executive Director of Clipper Consulting Limited.

Appointed Member of the Board of Directors of Hellenic Bank on 19 February 2016. Chairman of the Risk Management Committee of the Bank's Board of Directors.

(e) Demetrios Efstathiou

Born on 12 August 1970 in Nicosia. Studied B.Eng. in Information Systems Engineering at Imperial College London. Holder of Master of Business Administration (M.B.A.) from London Business School, UK.

Commenced his career in 1993 at London Forfeiting Company PLC, in London, where he worked until 2001. He held the positions of Associate Director in London (head office) and Managing Director in Hong Kong, as head of office.

From 2003 until 2007 he worked at Morgan Stanley, in London, as Proprietary Trader - Head of CEEMEA proprietary trading - Fixed Income Division. In 2008 he joined Argo Capital Management Ltd, in London, a hedge fund manager specialising in emerging markets, as Portfolio Manager. From 2010 until 2013 he worked at RBS Global Banking & Markets, in London, (now Natwest Markets) as Head of Research & Strategy - Central and Eastern Europe, Middle East, Africa (CEEMEA) covering currencies, credit and interest rates. In 2013 he joined ICBC Standard Bank Plc, in London, as Head of Trading Strategy.

Since March 2016 he is Executive Director - Chief Investment Officer (co-founder and majority shareholder) of Blue Diagonal Capital Ltd, Cyprus, an alternative investment fund management company (AIFM) regulated by the Cyprus Securities and Exchange Commission and licensed to provide portfolio management and investment advice to funds including its own umbrella fund.

Appointed Member of the Board of Directors of Hellenic Bank on 29 May 2017. Member of the Risk Management and Nominations / Internal Governance Committees of the Board of Directors.

Also non-executive Director of Hellenic Alico Life Insurance Company Ltd, Sorex Properties Ltd, UK and the Limassol Nautical Club.

(f) Lars Kramer

Born on 12 September 1967 in Germany. Graduated with a B.Sc. Accounting from the University of South Africa and has a Master's degree in Business Administration-Finance, Markets and Strategy from the University of Cape Town.

Between 2012 and March 2017 he was the Chief Financial Officer (CFO) for ING Wholesale Bank. He joined the ING Group in 1997 and over a period of two decades held a number of Finance related positions based in London, Hong Kong, Singapore and the Netherlands, including CFO for ING Retail Banking Direct & International (between 2010 - 2012), CFO for ING Direct (between 2008 - 2010) and CFO for ING Wholesale Asia (between 2003 - 2008). He started his career at PwC South Africa, where he qualified as a Chartered Accountant.

Appointed Chief Financial Officer of the Hellenic Bank Group on 3 April 2017 and Executive Member of the Board of Directors of Hellenic Bank on 10 July 2017.

Nicosia, 29 March 2018

HELLENIC BANK PUBLIC COMPANY LIMITED
REMUNERATION POLICY REPORT FOR THE YEAR 2017

INTRODUCTION

The Board of Directors of Hellenic Bank Public Company Limited (“the Company” or the “Bank”), in compliance with the provisions of the Code of Corporate Governance, published by the Cyprus Stock Exchange (4th revised edition - April 2014) and particularly Appendix 1 of the Code, incorporates the present Remuneration Policy Report in the Company’s 2017 Annual Report. The Company’s 2017 Annual Report is published in the Company’s website.

REMUNERATION COMMITTEE

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

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

The composition of the Remuneration Committee during 2017 and until the date of this Report is as follows:

Chairperson: Evripides A. Polykarpou (From 29th May 2017)
Irena A. Georgiadou (Until 29th May 2017)

Members: David Whalen Bonanno
Christodoulos A. Hadjistavris
Lambros Papadopoulos
Stephen John Albutt.

The terms of reference of the Remuneration Committee appear below

Terms of Reference of the Remuneration Committee

1. Role of the Remuneration Committee

The Remuneration Committee was established to ensure that Hellenic Bank Public Company Limited

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

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

2. Composition of the Remuneration Committee

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

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

The Chairperson of the Committee is appointed by the Board.

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

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

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

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

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

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

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

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

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

4. Duties and Responsibilities of the Remuneration Committee

Remuneration Framework

4.1 The Committee shall submit to the Board, within terms of reference agreed upon and without the presence of the party interested in their evaluation, proposals concerning the framework and level of remuneration (including fixed pay, performance-related pay, bonuses, pension rights and any

compensation payments, share options, etc.) of Executive and non-Executive Members of the board of the Company or its subsidiary companies, the Company Secretary, the Chief Executive Officer of the Company or its subsidiary companies, his/her direct reports and the Heads of the Control Functions.

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

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

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

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

Remuneration Policy

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

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

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

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

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

- a. Determine and periodically review target and measures to be applied for variable compensation, liaising with the Risk Management Committee of the Board and
- b. Set budget for annual staff increases.

Remuneration of Non-Executive Members of the Board

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

- a. The available time that the Members have to prepare for attending meetings,
- b. The responsibilities assumed by each Member,
- c. The non-correlation of remuneration to the profitability of the Company and
- d. The non-participation in any insurance or pension plan.

Readjustment of Benefits

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

External Advice

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

Control Functions

4.12 The Committee shall directly oversee the remuneration of the senior officers in the Group Control Functions.

Remuneration Reports / Statements

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

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

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

Committee Governance

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

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

Annual General Meeting

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

5. Code of Corporate Governance

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

DIRECTORS' REMUNERATION POLICY

The Remuneration Policy for the Directors of the Company remains the same as it was when approved in the Annual General Meeting of the Shareholders held on 24th May 2017, as shown below. A relevant proposal will be submitted by the Board of Directors to the Annual General Meeting of the Shareholders for approval.

The remuneration of the Members of the Board of Directors for the year 2017 was fixed as follows:

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

Furthermore, the remuneration of the Members of the following Committees of the Board of Directors for the year 2017 was fixed as follows:

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

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

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTOR / CHIEF EXECUTIVE OFFICER

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

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

The non-variable annual salary is paid monthly and takes into consideration his knowledge, experience, academic background, expertise and leadership skills. In addition, it takes into consideration the offered

services, the time devoted to the Group and the scope of undertaken responsibilities, the benefits and remuneration of officials in corresponding positions in other comparable organisations and the market at the specific moment in time when the contract was prepared. The remuneration package also includes fringe benefits such as participation in a Medical Plan and Accident-related dental coverage Plan for the employee and his family, life and permanent disability insurance and accident cover whilst on the Company's business as per the Company's policy, use of a company car, payment by the Company of all expenses in connection with such use and driver.

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

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

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

- (i) such New Shares shall form part of the Chief Executive Officer's variable remuneration package;
- (ii) the issue of such New Shares will be based upon such performance criteria as the Board of Directors (or a duly authorised Committee of the Board of Directors) of the Bank may, from time to time, determine and the New Shares shall be issued in a manner which is consistent with the provisions of the Directive issued by the Central Bank of Cyprus to Credit Institutions on Governance and Management Arrangements of 2014, as the same may be amended from time to time;
- (iii) the issue price per New Share shall be equal to the higher of (a) the nominal value per New Share and (b) its market price or its fair value on the date of its award (as set out in the European Banking Authority Guidelines on Sound Remuneration Policies, as the same may be amended or replaced from time to time) to the Chief Executive Officer; and
- (iv) this authority shall expire on the date being five years from and including the date of approval of this resolution unless extended by the General Meeting of the Bank.

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

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

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

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

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

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

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

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTORS

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

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

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

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

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

of 100% of an Eligible Employee's base salary. The making of and amount of any such award is subject to the Company's discretion.

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

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

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

Mr Georgios Fereos served as Executive Member of the Board of Directors from 29th April 2015 and resigned from the Board of Directors on 10th July 2017. Mr Fereos continues to serve the Group as General Manager, Corporate Development & Products.

Mr Fereos' remuneration package includes a non-variable annual salary paid monthly. His remuneration package also includes fringe benefits such as participation in a medical plan for the employee and his family, life and permanent disability insurance and accident cover whilst on the Company's business as per the Company's policy, fixed car allowance and fixed accommodation allowance, per annum, payable in equal monthly instalments and contribution by the Company towards a defined-contribution provident fund.

Mr Fereos' contract is not for a fixed term duration and it can be terminated by either party giving the other party three month's written notice.

In the event the contract is terminated by the Company without cause, the Company shall pay to the Employee as compensation for the termination of his employment, an amount equivalent to the greater of: (a) six-month gross basic salaries or (b) compensation for unfair dismissal according to Table IV of the Termination of Employment Law 24/67 as amended and shall give to the Employee three-month prior written notice. Such compensation, notice and any payment in lieu of notice will be calculated on gross basic salary excluding additional remuneration and fringe benefits the Employee enjoyed during his employment.

The changes in the cumulative retirement benefits of the Executive Directors for the year are disclosed in Note 38 to the Accounts contained in this Annual Report.

REMUNERATION POLICY

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

- (a) The Group results, taking into account the financial conditions of the market in which these results were achieved and the risks assumed;
- (b) The performance of the Executive and the Division(s) under his/her responsibility, bearing in mind both financial and non-financial criteria such as compliance with the Bank's risk appetite, procedures and policies; and
- (c) The long-term interests of the Group.

The Remuneration Policy for the Members of the Board / Chief Executive Officer, as described above, was codified for the first time in the Group's Remuneration Policy, which was approved by the Board of Directors, following a proposal by the Remuneration Committee on 25th February 2010, on the basis of

the provisions of the amending Directive of the Central Bank of Cyprus “Framework of Principles of Operation and Criteria of Assessment of Banks’ Organisational Structure, Internal Governance and Internal Control Systems” (2009).

The Remuneration Policy for the Members of the Board / Chief Executive Officer was amended and incorporated in the Group’s Remuneration Policy, which was approved by the Board of Directors as recommended by the Remuneration Committee on 28th February 2012, based on the revision of the 3rd edition of the Corporate Governance Code as published by the Cyprus Stock Exchange in March 2011. Further amendment followed based on the Directive of the Central Bank of Cyprus for the “Calculation of the Capital Requirements and Large Exposures of Banks of 2006 to 2011” and the Guidelines of the Committee of European Banking Supervisors (European Banking Authority) on Remuneration Policies and Practices, which was approved by the Board of Directors as recommended by the Remuneration Committee on 5th November 2012. Further amendment of the Group Remuneration Policy followed on 6th November 2014 and 9th June 2015, based on the provisions of the Central Bank Directive on “Governance and Management Arrangements in Credit Institutions” of 2014, Articles 3 and 4 of Regulation (EU) No. 604/2014 and the 4th Edition of the Corporate Governance Code published by the Cyprus Stock Exchange (4th revised edition – April 2014).

The Group’s Remuneration Policy is reviewed periodically by the Board of Directors, further to recommendation by the Remuneration Committee, in order to ensure that it is in line with the Group’s prevailing strategic targets and to prevent the introduction of incentives that lead to excessive risk assumption or conflicts of interest. The Policy is also evaluated in order to determine whether it corresponds to the prevailing conditions of the market and the Group and whether these justify the Policy’s review. The review is conducted with the participation of the Group’s Internal Control Functions and other Head Office Units. The Policy is currently under review to incorporate the provisions of the revised Guidelines of the European Banking Authority on Sound Remuneration Policies.

Related to the Remuneration Policy for the Members of the Board, the Chief Executive Officer and other Senior Managers for 2017 is the disclosure of information in the notes to the Accounts included in this Annual Report (Note 38) as well as the analytical Disclosure of Information Regarding the Remuneration of the Directors for the year 2017 shown below.

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

Nicosia, 29 March 2018

	Remuneration for services €	Remuneration for participation in the Board of Directors and its Committees €	Total remuneration for services €	Remuneration and benefits from companies of the same Group of companies €	Remuneration in the form of profit and/or bonus distribution €	Assessment of the value of the benefits that are considered to form remuneration €	Total remuneration and benefits €	Annual increase in the total retirement benefits €	Consideration for terminating the contract of employment €
Executive Directors									
Ioannis A. Matsis	334.849	45.000	379.849	-	-	17.186	397.035	-	-
Lars Kramer	214.989	21.575	236.564	-	-	-	236.564	-	-
Georgios Fereos	104.623	23.425	128.048	-	-	1.373	129.421	7.375	-
	<u>654.461</u>	<u>90.000</u>	<u>744.461</u>	<u>-</u>	<u>-</u>	<u>18.559</u>	<u>763.020</u>	<u>7.375</u>	<u>-</u>
Non-Executive Directors									
Irena A. Georgiadou	-	115.192	115.192	-	-	-	115.192	-	-
Marinos S. Yannopoulos	-	70.000	70.000	-	-	-	70.000	-	-
Dr Evripides A. Polykarpou	-	131.767	131.767	-	-	-	131.767	-	-
Marianna Pantelidou Neophytou	-	75.000	75.000	-	-	-	75.000	-	-
David Whalen Bonanno	-	65.000	65.000	-	-	-	65.000	-	-
Christodoulos A. Hadjistavris	-	75.000	75.000	9.000	-	-	84.000	-	-
Andreas Christofides	-	85.000	85.000	-	-	-	85.000	-	-
Lambros Papadopoulos	-	100.000	100.000	-	-	-	100.000	-	-
Andrew Charles Wynn	-	90.000	90.000	-	-	-	90.000	-	-
Stephen John Albutt	-	75.000	75.000	-	-	-	75.000	-	-
Demetrios Efstathiou	-	43.849	43.849	4.625	-	-	48.474	-	-
	<u>-</u>	<u>925.808</u>	<u>925.808</u>	<u>13.625</u>	<u>-</u>	<u>-</u>	<u>939.433</u>	<u>-</u>	<u>-</u>
Total	<u>654.461</u>	<u>1.015.808</u>	<u>1.670.269</u>	<u>13.625</u>	<u>-</u>	<u>18.559</u>	<u>1.702.453</u>	<u>7.375</u>	<u>-</u>

NOTE:

The Remuneration for services of the Executive Directors relate to the period for which they were Members of the Board of Directors.



Group Audited Financial Results for the year ended 31 December 2017

29 March 2018

Highlights – FY17 Group audited financial results

2016-2017; period of significant strategic progress to strengthen the Bank

Reduced NPEs with significantly increased provision coverage, setting up the 1st debt servicer in Cyprus, agreeing the 1st NPE portfolio trade, DTA derecognition, VEES and reorganisation to improve efficiency, growing the performing book, whilst generating regulatory capital

Asset quality

- 1st Cypriot bank to agree to sell an NPEs¹⁾ portfolio, totaling €145 m
- NPEs reduced for 9 consecutive quarters; NPEs ratio at 53% (post NPE trade agreement)
- NPEs provision coverage at 60%²⁾ (post NPE trade agreement); Net NPEs collateral coverage at 136%³⁾
- Net NPEs⁴⁾ to Assets at 13%, significantly lower than Cypriot peers

Capital Strength

- CET1 ratio (FL)⁵⁾ of 13,8% and Tier 1 ratio (FL) of 17,6%, significantly improved y-o-y
- Capital ratios well above minimum regulatory requirements and compare well with EU average
- IFRS 9 impact⁶⁾ estimated as a reduction of €34 m (net of tax) in shareholders' equity; Impact will be phased in over a five year period for capital regulatory purposes, is manageable and well within the Group's capital plans

Liquidity and funding structure

- Ratio of loans to deposits of 48% enables business expansion
- Deposit funded, with deposits accounting for 85% of total assets

Performance

- Adj. for VEES⁷⁾ cost of €41 m, adjusted 4Q17 Pre-provision profit of €10 m and adjusted 4Q17 Profit after tax €14 m
- 4Q17 Loss after tax of €27 m and FY17 Loss after tax of €45 m
- De-risking initiatives affect profitability, through pressured interest income, reduced fee income and high provisions
- Interest margins reflect a highly liquid, underleveraged balance sheet and current ECB monetary policy

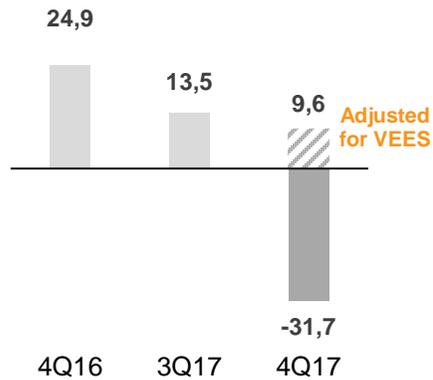
Systemic bank in a growing economy

- A systemic bank with deposit and loans market shares of 12% and 8%, respectively
- High lending momentum; €0,5 b of loans approved during FY17, up by 49% y-o-y; Performing loans up by 5,4% y-o-y
- Cypriot economy expanded by 3,9% during 2017, on the back of a broad based recovery

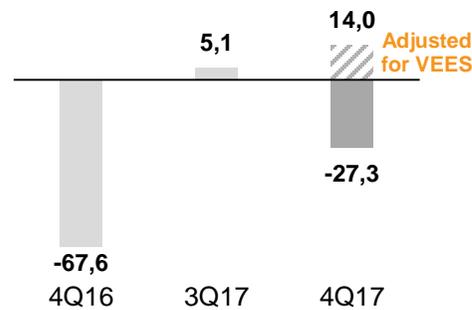
1) For a list of definitions and abbreviations, please refer to Glossary in slides 49-50. €145 relates to the gross contractual outstanding balance of the portfolio sold, with the gross carrying amount being €132 m
 2) Cumulative impairment losses 3) Taking into account tangible collateral, based on open market values (capped at client exposure) 4) Net NPEs = NPEs minus Cumulative impairment losses 5) On a Fully Loaded basis. 6) Based on current estimates. 7) Voluntary Early Exit Scheme

Performance across key indicators

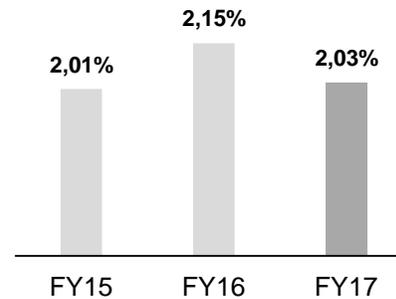
Profit before provisions (€m)



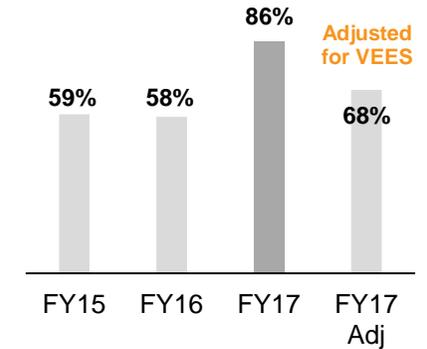
Profit/(Loss) for the period (€m)



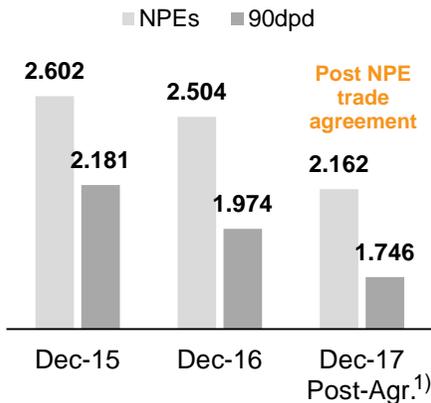
NIM



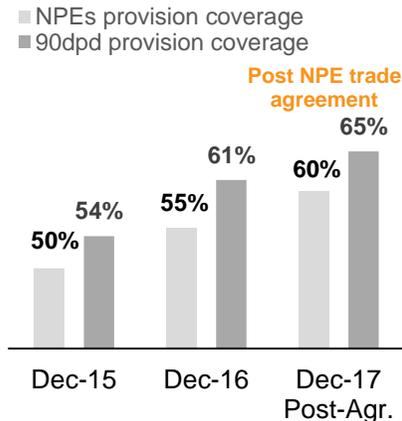
Cost to income ratio



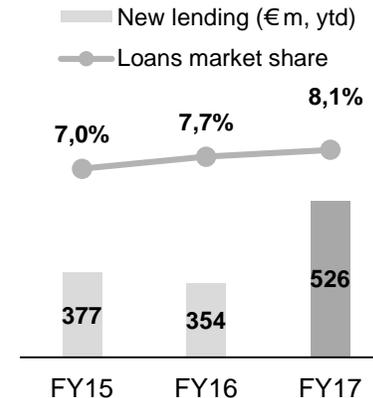
NPEs (€m) and 90dpd (€m)



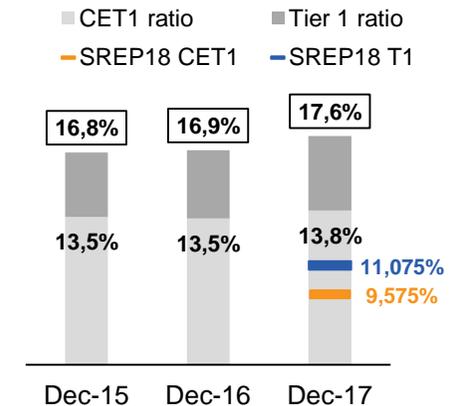
Provision coverage



New lending²⁾ and Loans market share³⁾



Capital ratios (FL)⁴⁾



1) Adjustment relates to the NPE trade agreement

2) Approved facilities

3) Based on CBC data

4) SREP18 CET1 and SREP18 T1 ratio requirements based on ECB's SREP conducted during 2017 with reference date 31 December 2016

Evolution of key metrics - Pillars of strategy

Key metrics

	Dec-15	Dec-16	Dec-17
NIM (ytd)	2,01%	2,15%	2,03%
Cost to income ratio (ytd) <i>(Adj. for VEES)</i>	59%	58%	86% 68%
Cost of risk (bps, ytd)	231	284	206 (Pre-Agr.)
Earnings/(Loss) per share (€ cent) (ytd)	6,4	(32,0)	(23,0)
Loans to deposits ratio	50%	48%	48%
NPEs % gross loans	59%	58%	53% (Post Agr.)
NPEs provision coverage	50%	55%	60% (Post Agr.)
Net NPEs collateral coverage	127%	129%	136%
CET1 ratio (FL)	13,5%	13,5%	13,8%
Tier 1 ratio (FL)	16,8%	16,9%	17,6%
Leverage ratio (FL)	8,6%	8,7%	8,6%

Pillars of strategy

“Fix”
strategy



- NPEs reduction using a toolset of sustainable solutions, such as D2As, cash collection, balance reductions, maturity extensions, grace periods, instalment reductions and NPE trades
- APS Cyprus focuses on tackling NPEs in an accelerated way and with higher recoveries, leveraging on the knowhow, expertise and experience of APS Holding
- The establishment of a debt servicer facilitates the price discovery for problem loans and helps to develop a distressed assets market in Cyprus, attracting international investor interest for such assets and expediting the resolution of problem loans
- 1st Cypriot bank to agree to sell an NPE portfolio shows the way for more NPE trades in the future

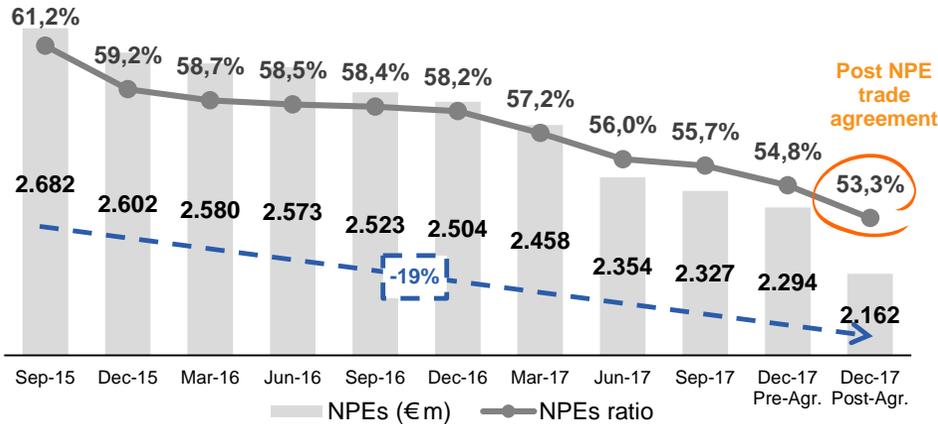
“Build”
strategy



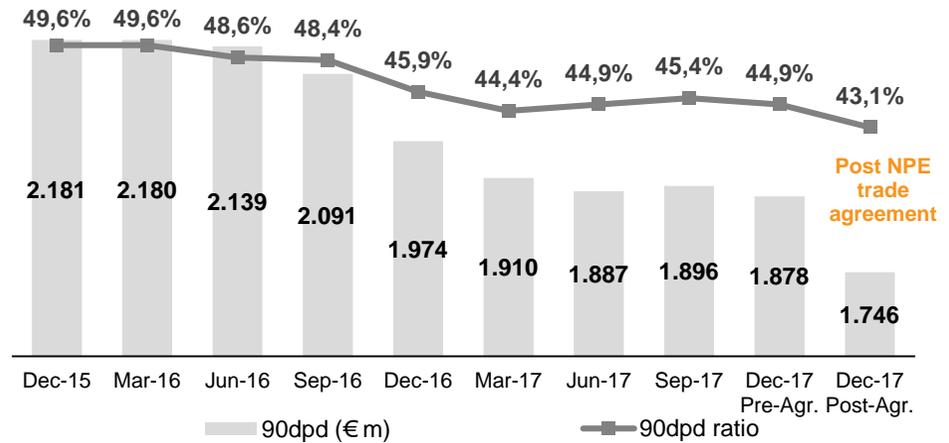
- Focus resources on the performing loan book by seizing opportunities both domestically and internationally
- Strengthening customer relationships by becoming primary bank
- Target retail/households and key business sectors
- Invest in technology/digital strategy to enhance customer service and experience
- VEES and new organisation structure to improve service, procedures and efficiency

Further improvement in asset quality

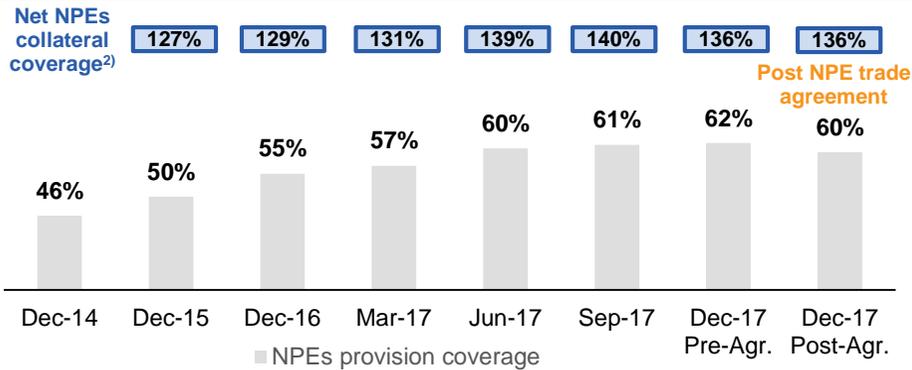
Nine consecutive quarters of NPE reduction



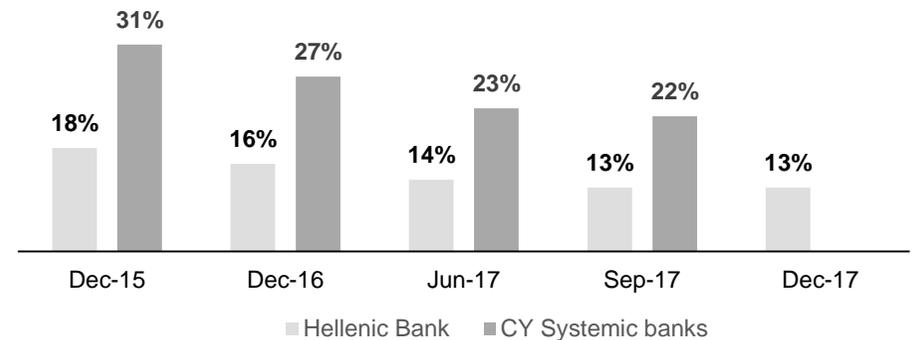
90dpd¹⁾ and 90dpd ratio



NPEs fully covered by provisions and collateral



Net NPEs to Assets significantly lower than Cypriot peers³⁾



1) For a list of definitions and abbreviations, please refer to Glossary in slides 49-50

2) Net NPEs collateral coverage = Collateral values (based on tangible collateral values) % (NPEs minus Accumulated Impairment Losses)

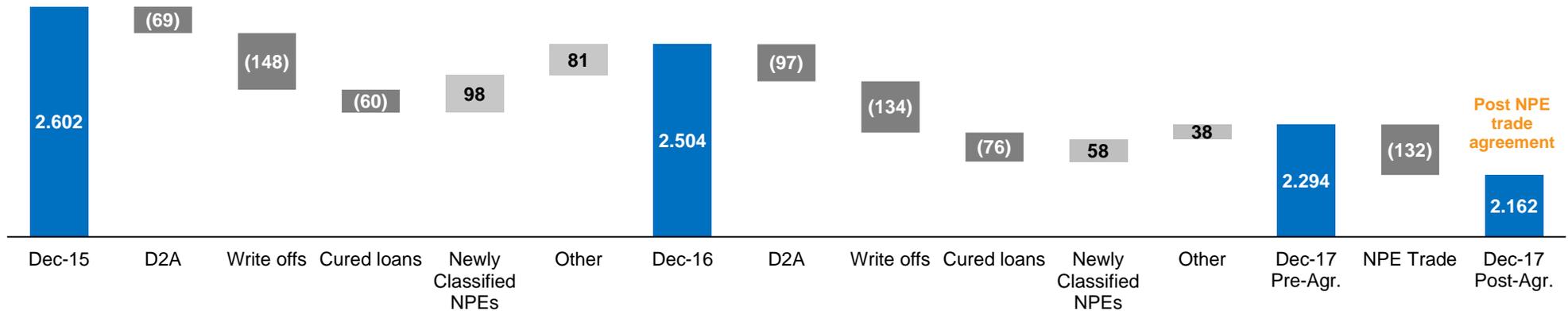
3) Net NPEs = NPEs minus Accumulated Impairment Losses ; Ratio for Cypriot peers refers to the weighted average ratio of the three Cypriot systemic banks.

Calculations are based on latest publicly available financial statements

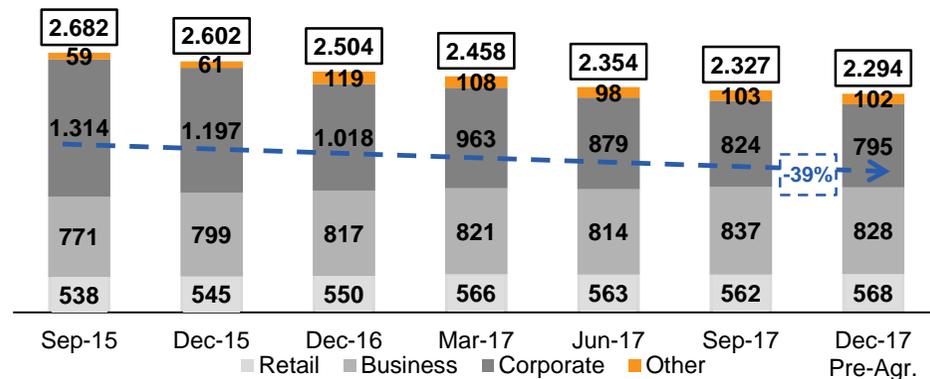
With NPE trade agreement, NPEs reduced by 19% since peak

Majority of NPE reduction experienced in Corporate NPEs

NPEs movement¹⁾



NPEs by segment²⁾ (€ m)



- In December 2017, the Bank agreed to sell an NPE portfolio of predominantly non-retail unsecured exposures to B2Kapital Cyprus Ltd, a wholly owned subsidiary of B2Holding ASA, a Norwegian corporation listed on the Oslo Stock Exchange. The portfolio totaled €145 m of NPEs, being the gross contractual outstanding balance. Transaction is subject to relevant regulatory approvals
- NPEs reduced by €210 m or 8% during FY17 (Pre NPE Trade Agr.). Since peak, NPEs are down by 19%, including NPE trade agreement.
- Majority of NPEs reduction experienced in Corporate NPEs, which were reduced by 39% since peak (Pre NPE Trade Agr.)

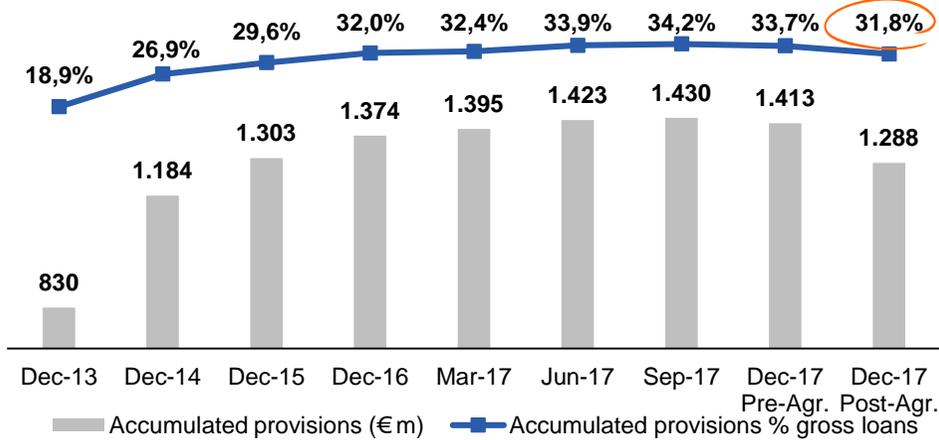
1) Category "Other" refers to interest, repayments, changes in unutilised balances etc

2) Classification based on internal operational segmentation (business line). "Other" includes: International, Shipping, Leverage finance and Other

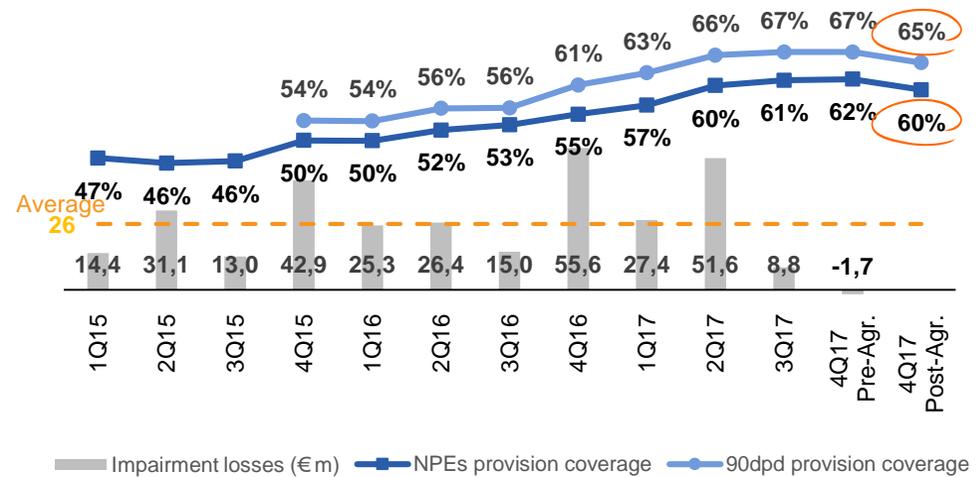
Numbers may not add up due to rounding

Improved provision coverage for problem loans

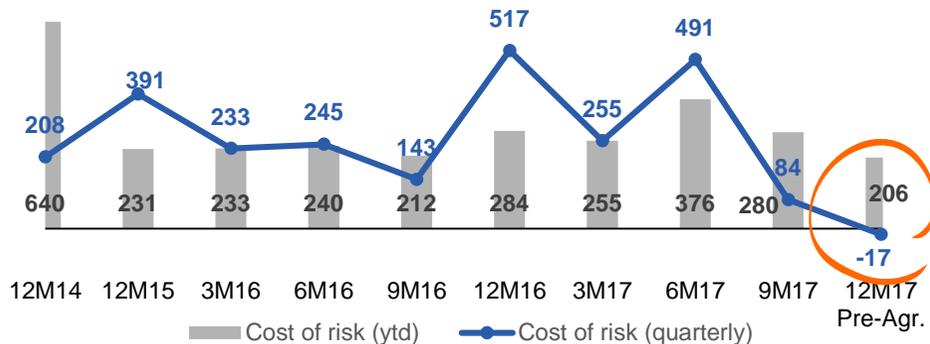
Accumulated provisions for impairments



Provisions for impairments¹⁾ and provision coverage



Cost of risk (bps)¹⁾



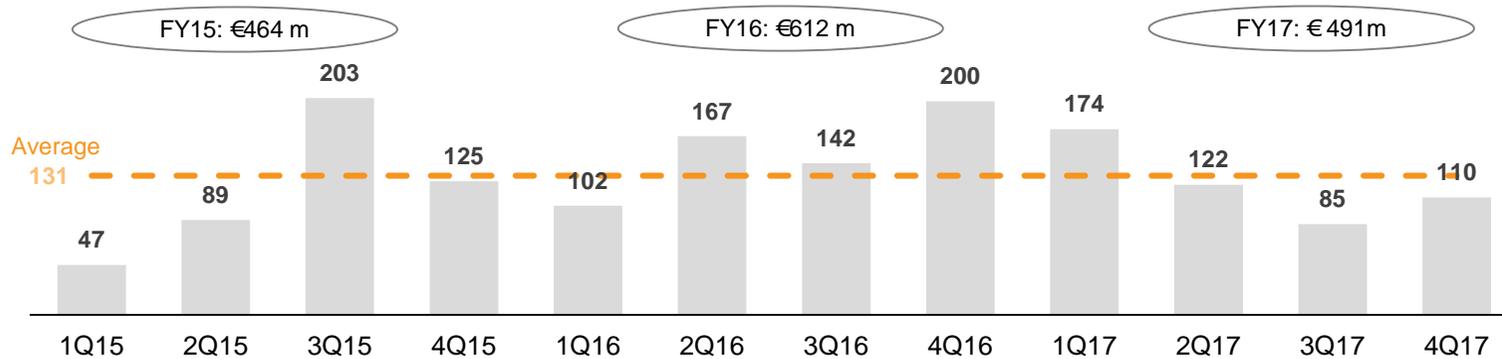
- Accumulated provisions at 31,8% of gross loans, post NPE trade Agr. During 4Q17 there was an impairment loss reversal¹⁾ of €1,7 m. FY17 impairment losses of €83 m reflect the amendments to the parameters and assumptions for estimating the recoverable amount of property collateral values (primarily due to the elimination of forward looking indexation and the adoption of higher liquidation discounts at point of sale)
- NPEs provision coverage at 60% at Dec-17 (Post NPE Trade Agr.), compared to 55% a year earlier
- FY17 Cost of risk of 206bps, compared to 284bps for FY16 and 231bps for FY15

1) Includes impairment of loans and advances and REOs and does not include provisions for contractual commitments and guarantees

Loan restructuring activity remains high

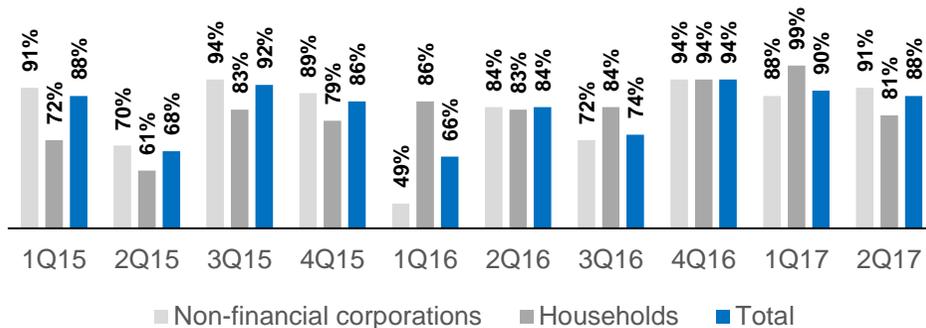
Loan restructurings (€m)¹⁾

Account basis



Restructured loans performance²⁾

% of restructured loans in arrears less than 90 days



- Total restructurings of €491 m during FY17, compared to €612 m for FY16
- With the emphasis on the setting up APS Cyprus during 3Q17, restructuring activity picked up during 4Q17
- At 31 December 2017, on average 86% of loans restructured post 31 December 2014 were in arrears less than 90dpd

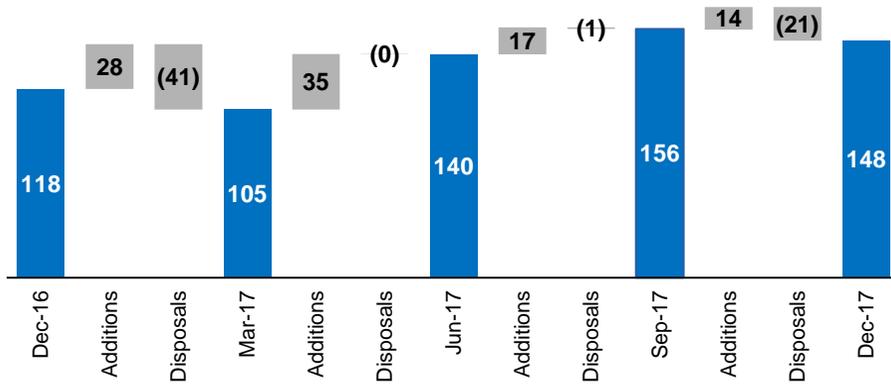
1) In line with EBA definition (please refer to slide 49). Includes debt to asset settlements and write-offs

2) Refers to restructurings implemented post 31 December 2014. For the calculation of the success rate per quarter of restructurings the balance at restructuring is used. Loans restructured during 3Q17 and 4Q17 are not shown as it is too early to assess their performance.

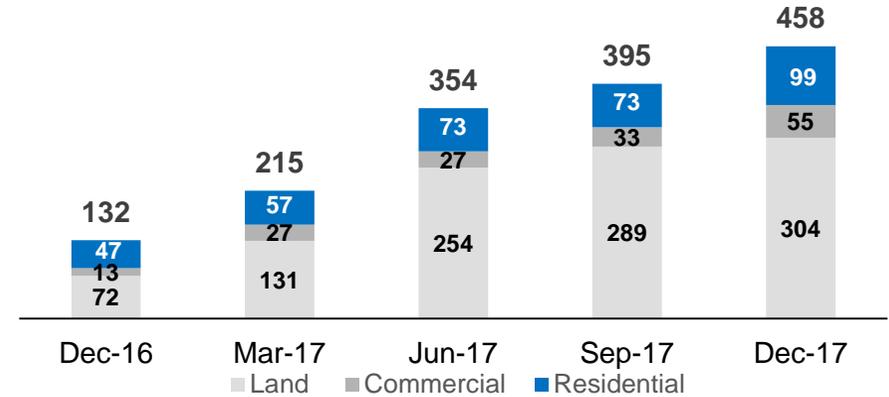
Numbers may not add up due to rounding

Properties managed by Property Management Unit (APS Cyprus)

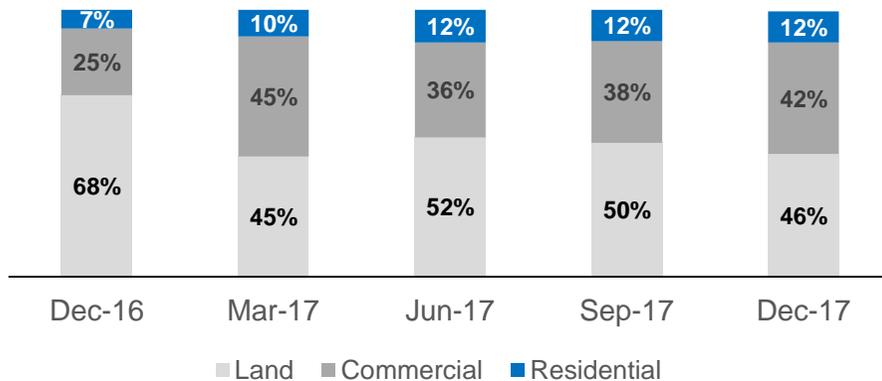
Movement of property stock (€m)



Number of properties by type



Real Estate by type of property¹⁾



- On-boarded assets at 31 December 2017 amounted to 458 properties worth of €148 m, mostly from customer debt settlements
- 46% of the on-boarded assets in terms of value relates to Land

¹⁾ Book Value
Numbers may not add up due to rounding

NPE resolution strategy

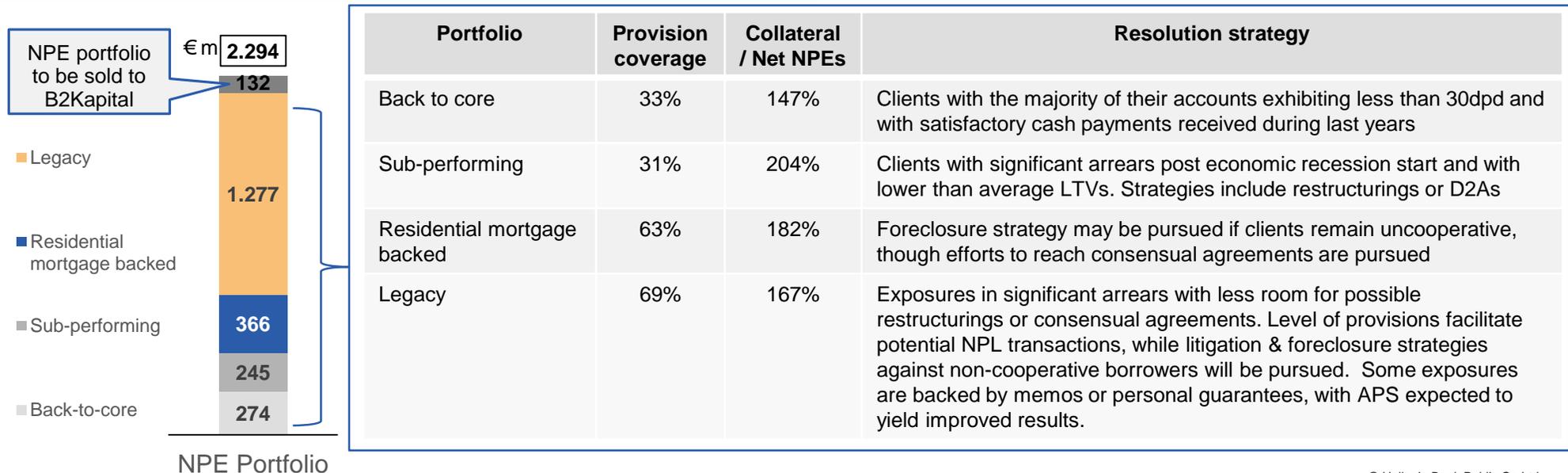
First Cypriot bank to create an independent debt servicer and agree an NPE portfolio sale

2017 Key Achievements

- A. Independent debt servicer
- B. Agreement for NPE portfolio sale
- C. 5-year NPE Plan committed to regulators

- A** **APS Cyprus** expected to accelerate the NPL reduction (leveraging on APS Holding expertise and knowhow) and to further support the opening of the secondary market for NPL disposals
- B** **NPE sale agreement with B2Kapital Cyprus** in December 2017, subject to regulatory approvals. Testing the legal framework will provide an important precedent and confidence to other investors looking to invest in the domestic distressed market
- C** **Reduction of NPLs by** considering the following options (a) organic deleveraging (D2As, foreclosures, cures, collections) and (b) portfolio disposals

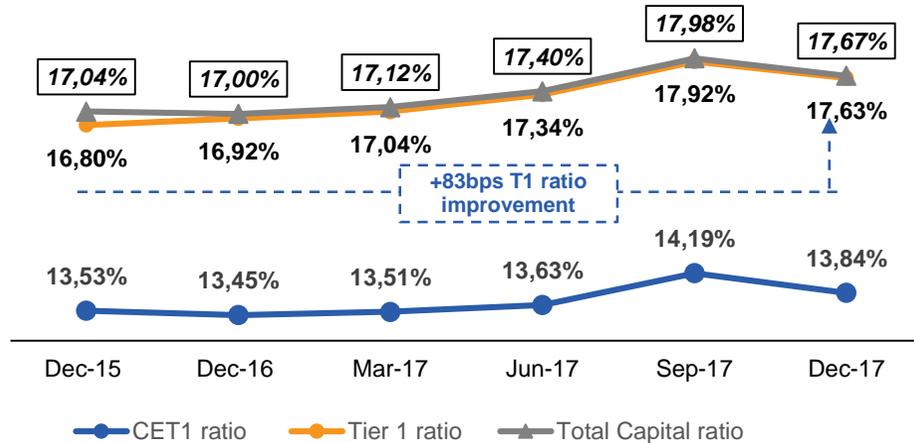
Way forward by NPE portfolio segmentation



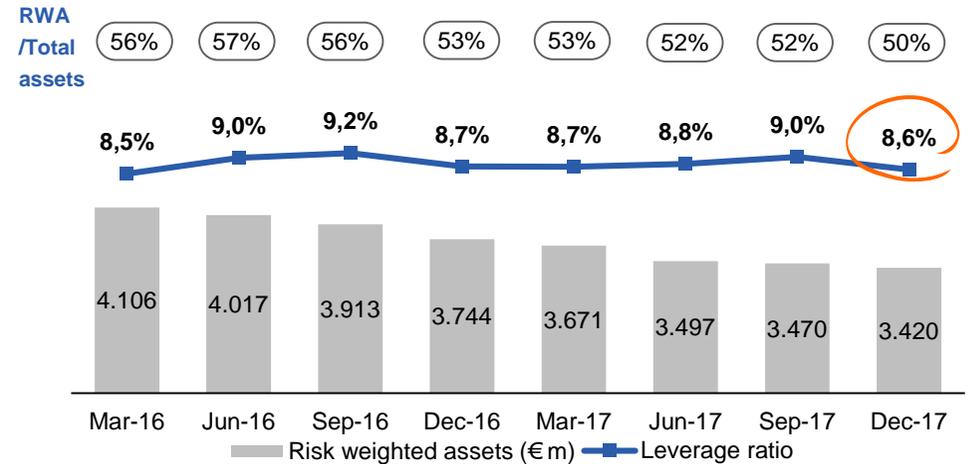
Improved capital position

Balance sheet de-risking initiatives and VEES post Dec-15 whilst generating regulatory capital

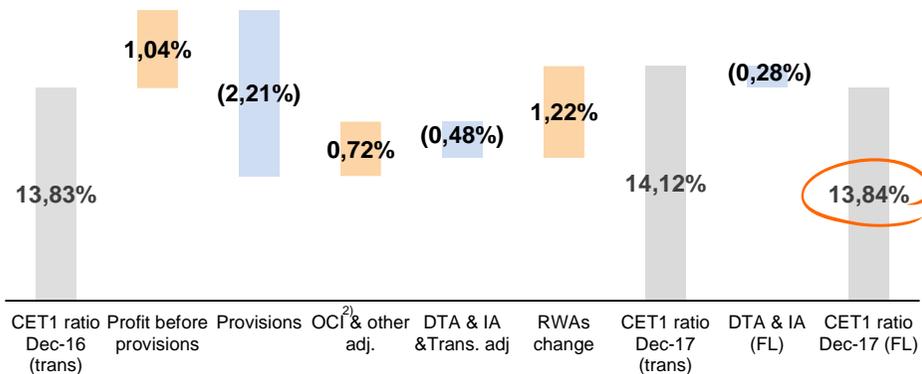
Capital ratios¹⁾



Leverage Ratio¹⁾



CET1 ratio evolution



- CET1 ratio (FL) totalled 13,84% at 31 December 2017, compared to 13,45% a year earlier
- €130 m of CCSs constitute additional loss absorbing buffer and are considered as Additional Tier 1 capital; Tier 1 ratio (FL) totalled 17,63% at 31 December 2017
- IFRS 9 impact³⁾ estimated to be a net reduction of €34 m (net of tax) in shareholders' equity on 1 January 2018; A minor positive impact on the Group's CET 1 is expected under transitional arrangements and a reduction of approximately 100 bps on a fully loaded basis. Impact will be phased in over a five year period for capital regulatory purposes, is manageable and well within the Group's capital plans

1) Basel regulation, CRR / CRD IV, Fully Loaded. 2) Other comprehensive income (OCI).
3) Following the current implementation of IFRS9 and based on current estimates
Numbers may not add up due to rounding

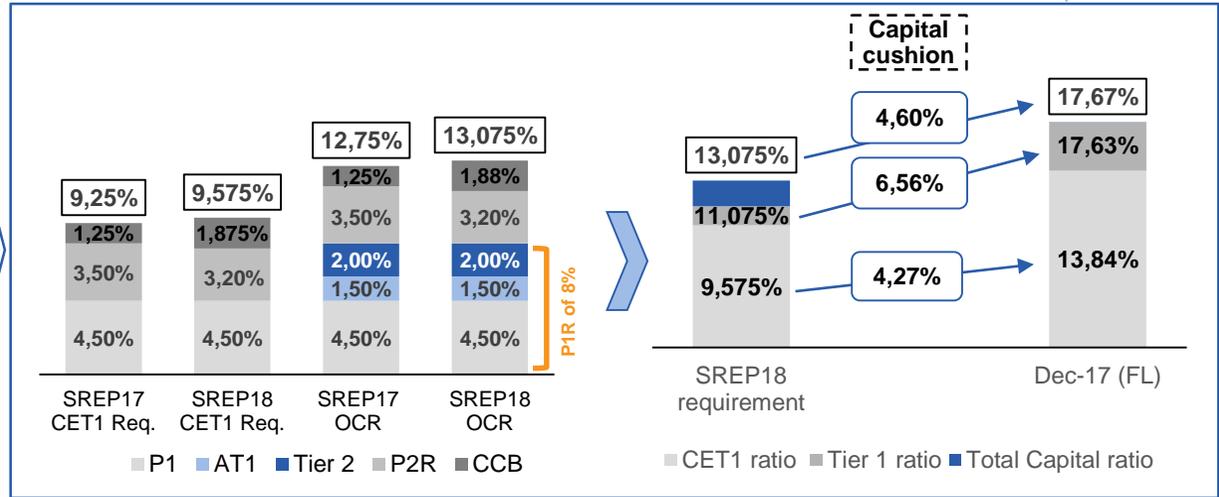
Capital ratios well above minimum regulatory requirements and compare well with EU average

Prudential requirements for 2018¹⁾

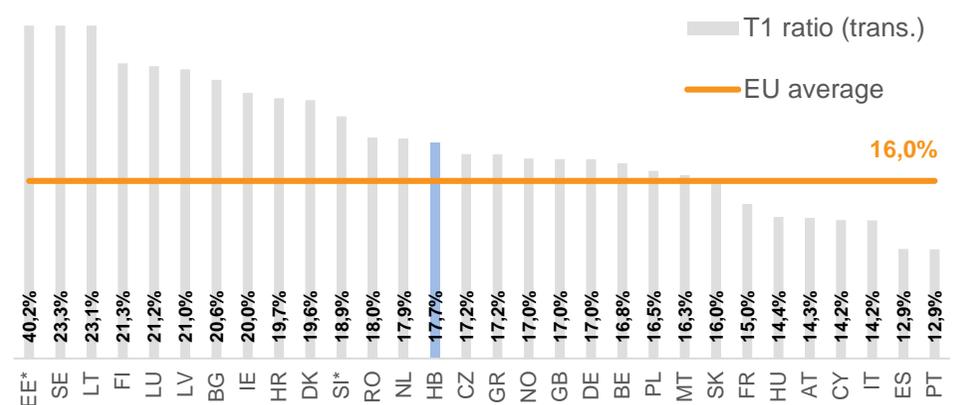
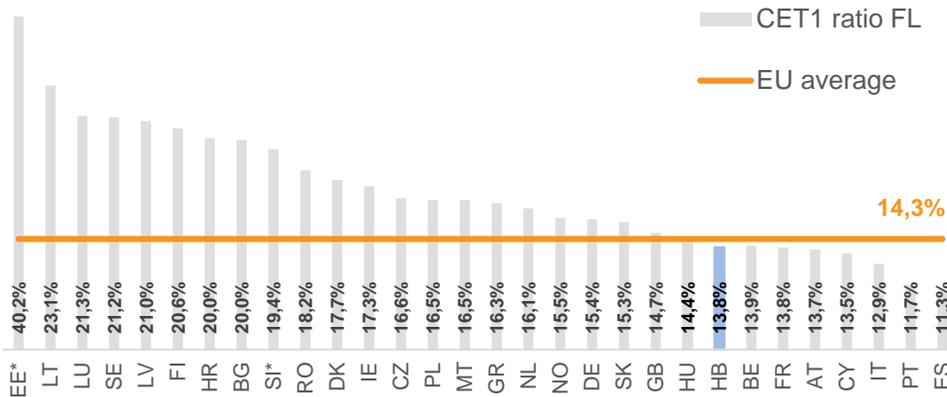
2018 minimum required CET1 and T1 ratios are 9,575% and 11,075%, respectively, based on ECB's decision for SREP18. The Group is required to maintain an OCR of 13,075% (trans.), including:

- P1R of 8% (up to 1,5% in AT1 capital and up to 2% in T2 capital),
- P2R of 3,2% (down from 3,5%) in CET1 capital
- and the combined buffer requirement which includes the capital conservation buffer (CCB)²⁾³⁾

The ECB has set a P2 guidance in CET 1 capital, effective from 1 January 2018



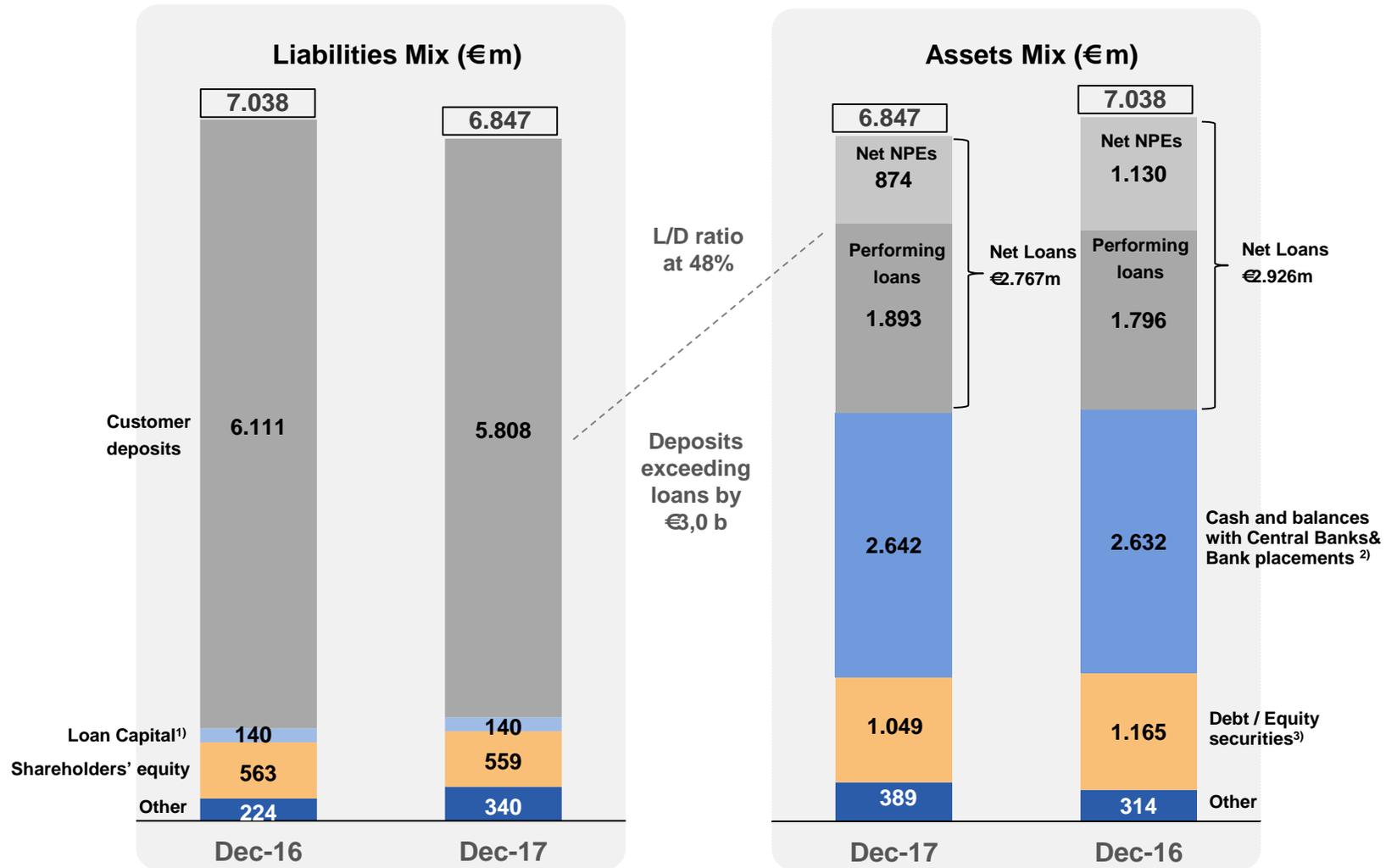
Capital ratios compare well to EU average⁴⁾



1) Based on ECB's decision for SREP18 conducted during 2017 with reference date 31 December 2016, 2) The Bank must maintain an Other Systemically important institution buffer (O-SII) of 1,0% of RWAs on 1 January 2022 starting from 1 January 2019 at 0,25% and increasing by 0,25% every year. The CBC has set the counter-cyclical capital buffer at 0% for 2016, 2017 and the first and second quarter of 2018.

3) In February 2017, the Cypriot Parliament voted for an amendment to the *Business of Credit Institutions Law* allowing the gradual phase-in of the CCB, starting 2016. Accordingly, the CCB for 2016 was set at 0,625%, for 2017 at 1,25%, for 2018 at 1,875% and for 2019 at 2,5% 4) As per EBA Risk Dashboard 3Q 2017

A deposit-funded balance sheet



1) €130 m of Convertible Capital Securities (CCSs) constitute additional loss absorbing buffer and are treated as Additional Tier 1 capital

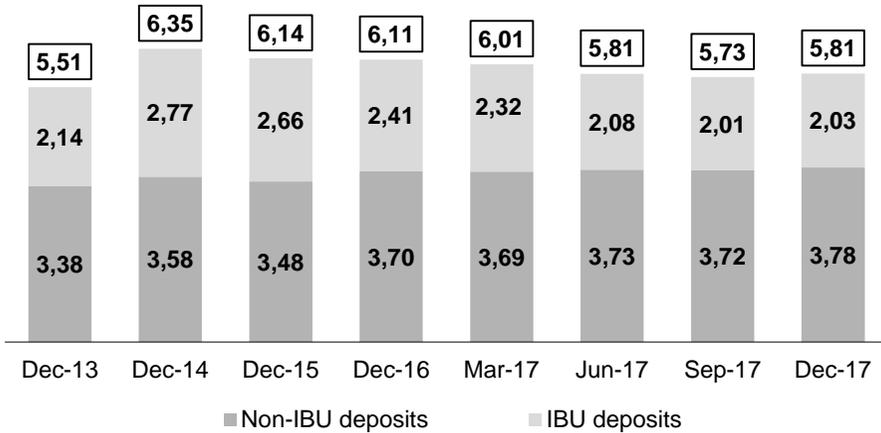
2) €2,17 b with the ECB at -40bps. Most foreign currency placements with banks rated Prime-1 short term rating by Moody's (P-1)

3) Deployment of liquidity in interest bearing assets.

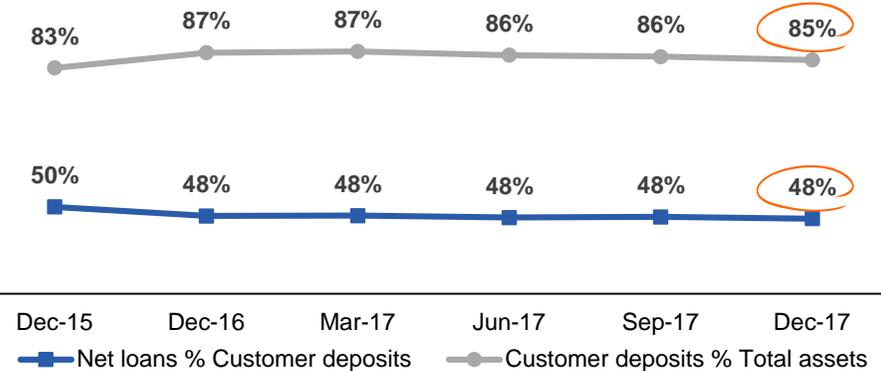
Numbers may not add up due to rounding

A stable, deposit-funded structure

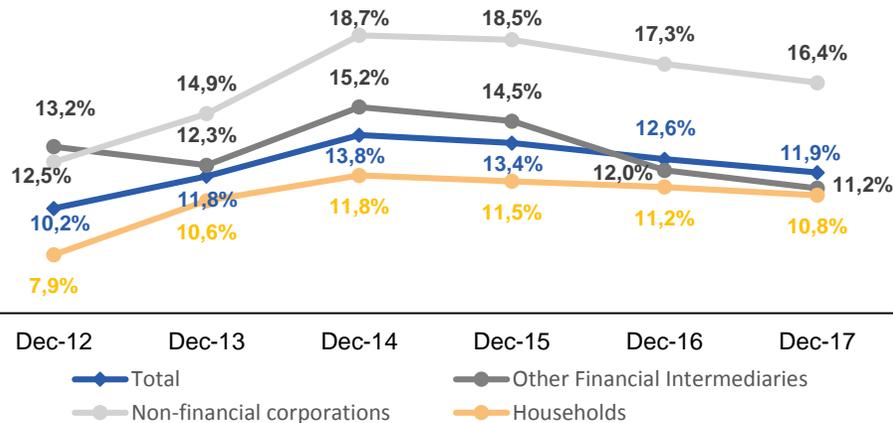
Customer deposits (€b)



Stable funding structure



Deposit market share (%)¹⁾

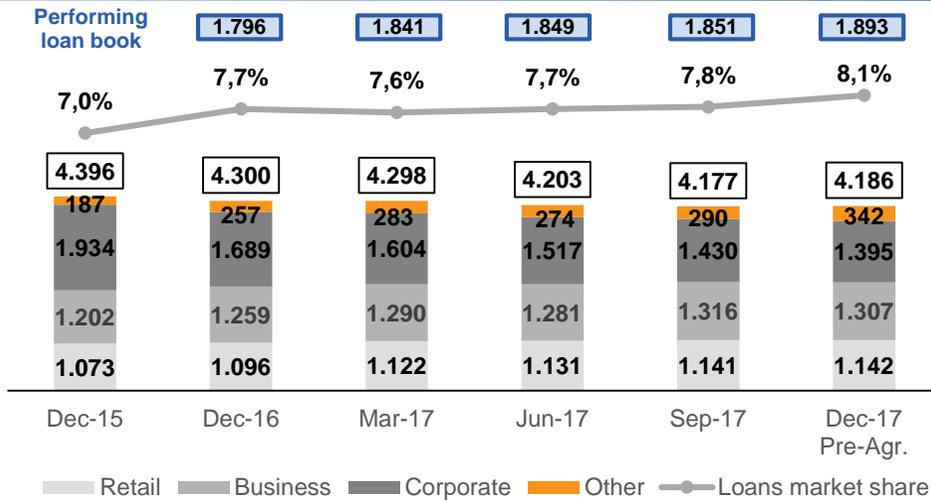


- Deposit trends reflect efforts to maintain a low deposit cost given the Bank's liquidity position
- Deposit split among main business lines: Retail banking accounts about 49% of total deposits, business banking about 5%, corporate banking about 5%, IBU deposits about 35%
- A stable funding structure, with a loans to deposits ratio of 48% (compared to an average of 73% for Cypriot banks and an average of 121% for EU banks)²⁾; Ratio of loans to deposits enables business expansion
- Deposit market share of 11,9% at December 2017

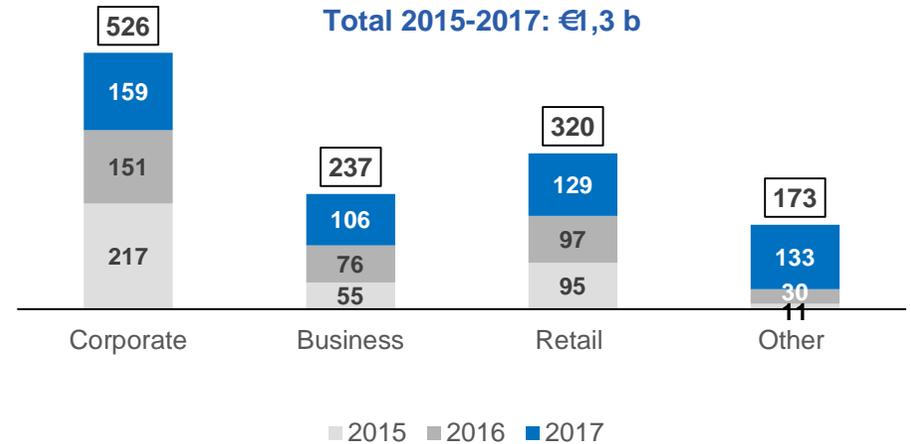
1) Source system data: CBC 2) As per EBA Risk Dashboard Q3 2017. Numbers may not add up due to rounding

High lending momentum mitigates pressure from loan repayments, customer deleveraging and loan restructuring activity

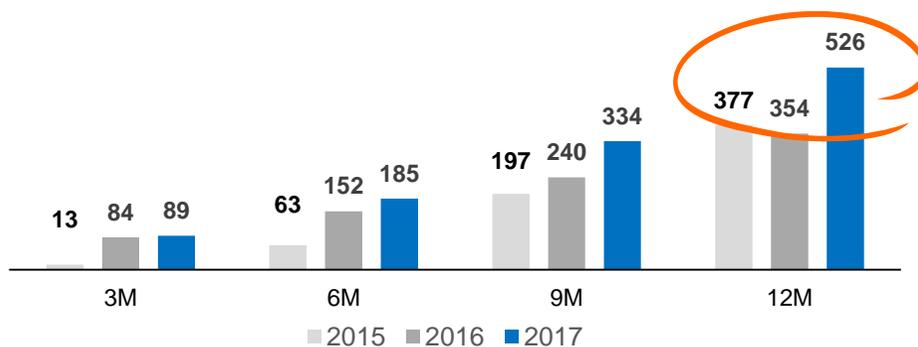
Gross loans composition (€m)¹⁾ and lending market share²⁾



New lending³⁾ (€m)



New lending³⁾ (€m)



- Gross loans totaled €4.187 m as at Dec-17 Pre NPE Trade Agr; Reduction in gross loans driven by loan repayments, customer deleveraging and increased restructuring activity including debt to asset swaps (D2As) and write offs
- New lending of €526 m during FY17; Total new lending of €1,3 b post 31 December 2014, as part of the Bank’s “Build” strategy
- Lending to businesses (Corporate and Business) accounted for €763 m (61%) of total new lending post 31 December 2014

1) Other includes: International, In.Corp. & Inv, Leverage Finance and Other

2) Source for system data: CBC

3) Approved facilities

Note: Numbers may not add up due to rounding

Income Statement highlights

[€m]		FY17	FY16	y-o-y	4Q17	3Q17	q-o-q	4Q16
Net interest income	1	131,2	147,5	(11%)	32,0	32,9	(3%)	36,8
Net fee & commission income	2	45,3	52,0	(13%)	12,0	11,2	8%	14,8
Other income	3	58,0	48,2	20%	9,4	8,5	11%	10,0
Total net income		234,5	247,7	(5%)	53,4	52,5	2%	61,6
Staff costs		(86,9)	(82,0)	6%	(23,2)	(20,3)	14%	(20,8)
Admin. & other expenses	4	(114,0)	(62,5)	82%	(62,0)	(18,7)	231%	(15,9)
Total expenses		(200,9)	(144,5)	39%	(85,2)	(39,0)	118%	(36,7)
Pre-provision income		33,6	103,2	(67%)	(31,7)	13,5	(335%)	24,9
Impairment losses & provisions	5	(82,9)	(115,2)	(28%)	2,4	(7,7)	(131%)	(51,1)
Share of results of associated company		0,8	-	100%	0,3	0,5	(32%)	-
(Loss)/profit before taxation		(48,5)	(12,0)	303%	(29,0)	6,3	(562%)	(26,2)
Taxation		3,5	(50,6)	(107%)	1,8	(1,2)	(249%)	(41,4)
(Loss)/profit after tax	6	(45,0)	(62,7)	(28%)	(27,3)	5,1	(634%)	(67,6)
Net interest margin (bps)		203	215	(13bps)	201	208	(7bps)	220
Cost to income ratio (%)		86	58	27p.p.	159	74	85p.p.	60
Return on Equity (%)		(8)	(11)	2p.p.	(19)	4	(23)	(45)

Highlights

- 1 **Lower Net interest income (NII) and NIM q-o-q**, mainly due to lower interest income on non-impaired loans reflecting increased market competition. On a yearly basis, NII and NIM were down primarily due to lower interest income on impaired loans
- 2 **Fee and commission income** under pressure due to lower fees from the IBS¹⁾ division. Fee and commission income up on a quarterly basis due to improved performance from the IBS division and seasonality
- 3 FY17 **other income** included the APS gain of €19 m (in 2Q17)
- 4 FY17 **Administrative & other expenses** include the VEES cost of €41 m and the fees paid to APS of €9 m for 2H17
- 5 **Reversal of impairment losses and provisions²⁾ of €2,4 m** for 4Q17. FY17 impairments losses and provisions were high due to certain amendments to the parameters and assumptions for estimating the recoverable amount of property collateral values used in the Bank's provisioning methodology, completed in 2Q17
- 6 **4Q17 Loss after tax of €27,3 m**, compared to a gain of €5,1 m for 3Q17 due to the VEES cost. FY17 Loss after tax of €45,0 m due to high impairment losses and the VEES cost

1) International Business Services

2) Includes Impairment losses on the value of loans and advances, REOs and Provisions to cover credit risk for contractual commitments and guarantees

bps = basis points ; p.p. = percentage points

Numbers may not add up due to rounding

Adjusted Income Statement

Adjustments relate to Visa Europe sale, DTA derecognition, APS transaction gain and VEES cost

[€m]	FY17	FY16	4Q17	3Q17	2Q17	1Q17
Net interest income	131,2	147,5	32,0	32,9	32,6	33,8
Net fee & commission income	45,3	52,0	12,0	11,2	11,3	10,8
Other income	1 39,0	3 34,2	9,4	8,5	1 9,6	11,5
Total net income	215,5	233,7	53,4	52,5	53,4	56,1
Staff costs	(86,9)	(82,0)	(23,2)	(20,3)	(22,5)	(20,9)
Admin. & other expenses	2 (72,7)	(62,5)	2 (20,7)	(18,7)	(15,1)	(18,1)
Total expenses	(159,6)	(144,5)	(43,9)	(39,0)	(37,6)	(39,0)
Pre-provision income	55,9	89,2	9,6	13,5	15,8	17,1
Impairment losses & provisions	(82,9)	(115,2)	2,4	(7,7)	(50,3)	(27,3)
Share of results of associate company	0,8	0	0,3	0,5	0	0
(Loss)/profit before taxation	(26,2)	(26,0)	12,3	6,3	(34,6)	(10,2)
Taxation	3,5	4 0,6	1,8	(1,2)	2,8	0,2
(Loss)/profit after tax	(22,7)	(25,5)	14,0	5,1	(31,8)	(10,1)

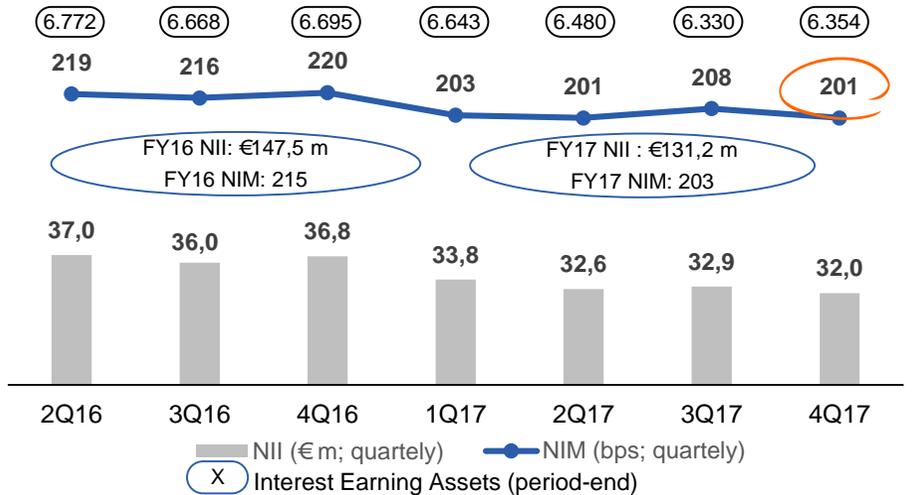
Adjustments

- 1 FY17 other income included the APS gain of €19,0 m (2Q17)
- 2 FY17 Administrative & other expenses include the VEES cost of €41,3 m (4Q17)
- 3 FY16 profit (other income) included 14,0 m profit from the sale of Visa Europe Investment
- 4 FY16 profit negatively affected by DTA derecognition of €51,2 m

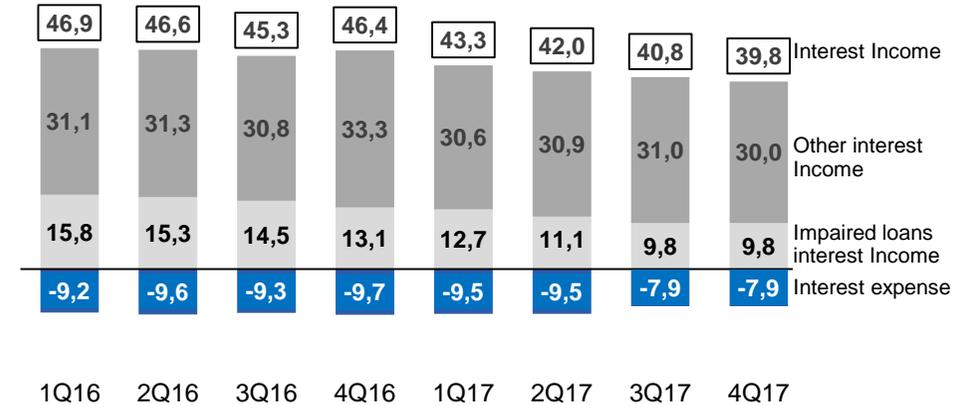
Additional Provisions due to SREP

NII driven by lower interest income and reflects a highly liquid, underleveraged balance sheet and current ECB monetary policy

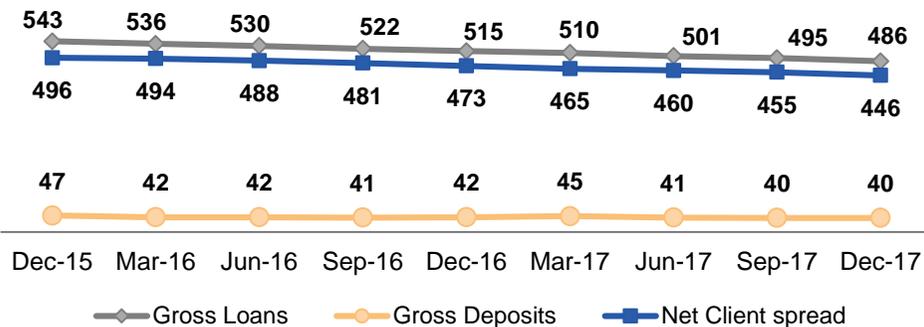
Evolution of NII and NIM; Interest Earning Assets



Components of NII



Average contractual interest rates

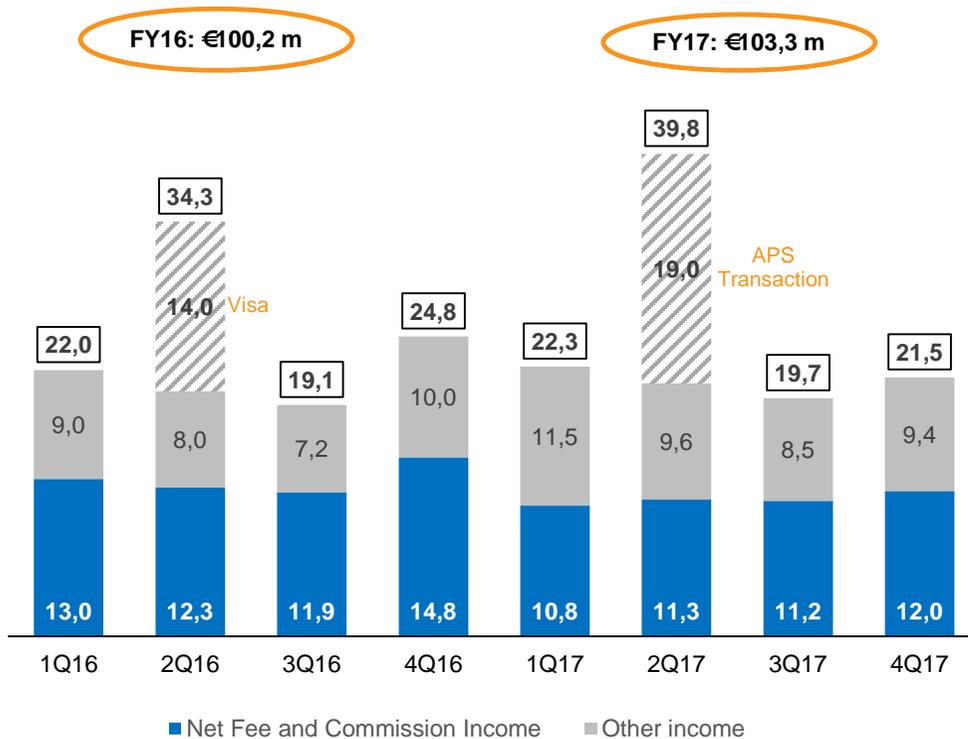


- 4Q17 NII of €32,0 m, down by 3% q-o-q, mainly due to lower interest income on non-impaired loans reflecting increased competition
- FY17 NII of €131,2 m, down by 11% y-o-y, primarily reflecting reduced impaired loans and lower lending rates
- FY17 NIM of 203bps, reflecting a highly liquid balance sheet (net loans accounting for 40% of total assets compared to an average of 62% for Cypriot and EU banks)¹⁾ and an ECB placement of €2,2 b (c. 32% of total assets) at a cost of 40bps

1) As per EBA Risk Dashboard 3Q 2017

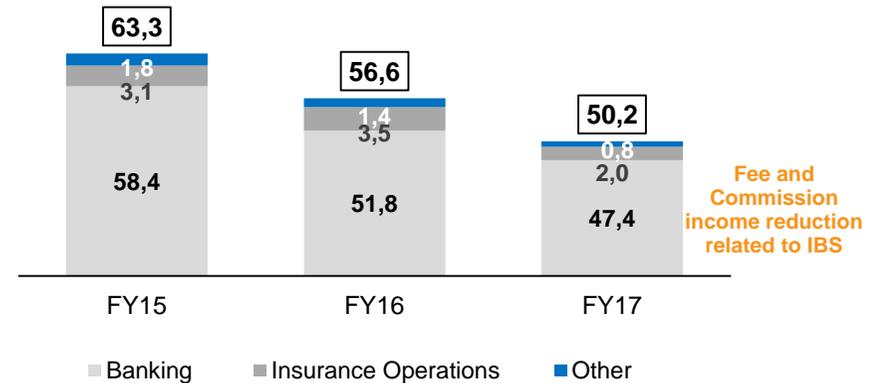
Non-interest income under pressure due to reduced fee income in the IBS division

Breakdown of non-interest income (€m)



X Total net income % Total non-interest income % Total net income

Breakdown of Fee and Commission Income



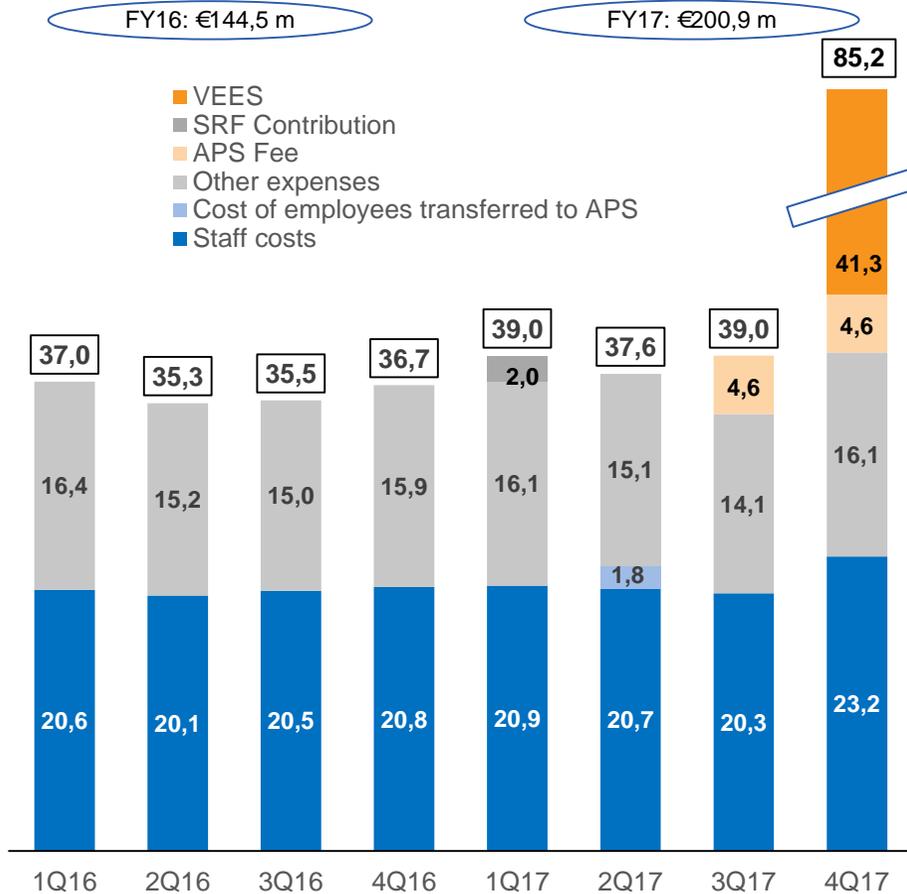
Fee and Commission income reduction related to IBS

- 4Q17 Net fee and commission income of €12,0 m, up by 8% q-o-q and down by 19% y-o-y. The y-o-y reduction in fee and commission income is due to reduced fees in the IBS division
- 4Q17 Other income of €9,4 m, compared to €8,5 m for 3Q17. 2Q17 included a net gain of €19,0 m from the APS transaction
- 1Q17 Other income of €11,5 m included a €2,1 m gain from the disposal of the investment in Anolia Holdings Ltd, which owned property acquired in satisfaction of debt

Cost to income ratio reflects a low NIM

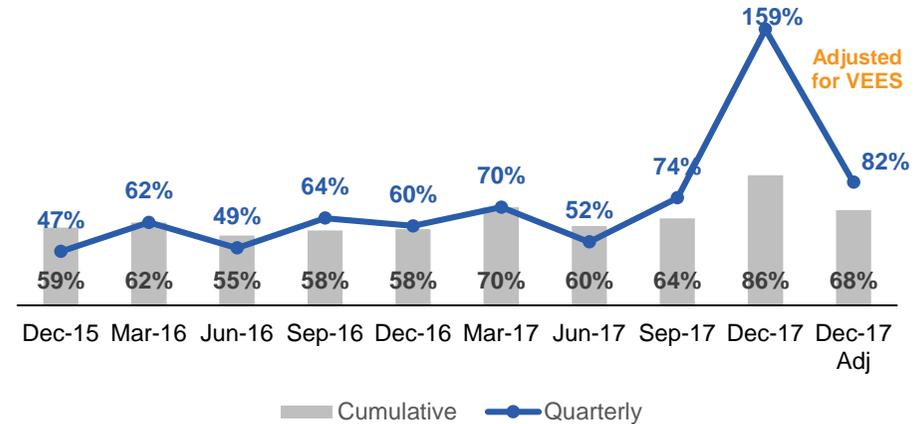
VEES and reorganization to improve efficiency and reduce cost base

Total expenses evolution (€m)



Numbers may not add up due to rounding

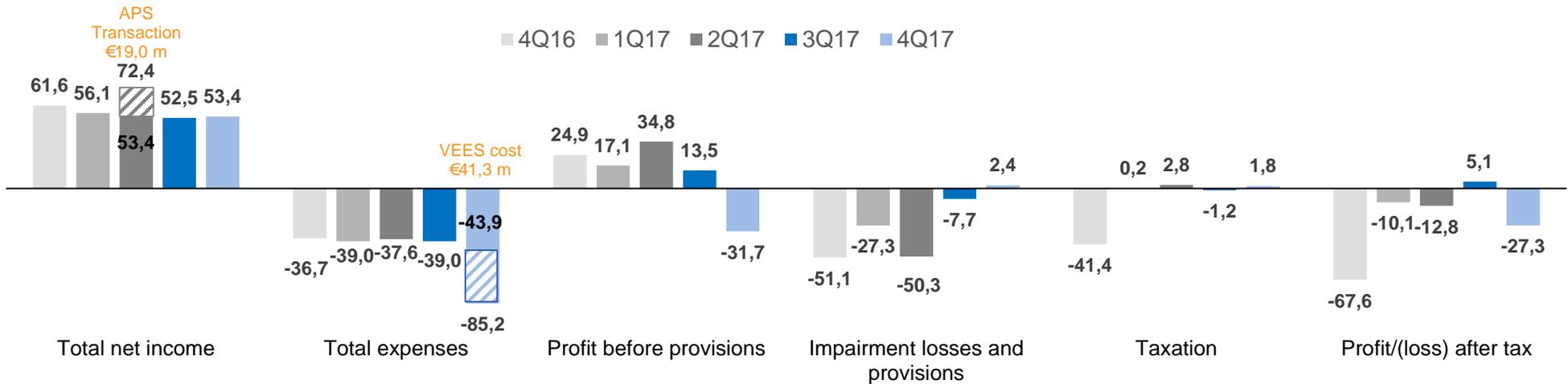
Cost to income ratio (%)



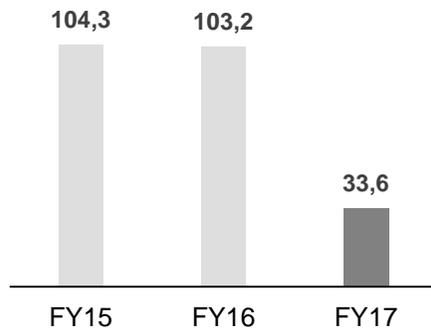
- During December 2017, the Bank completed a VEES aiming to reduce its personnel expense base and improve efficiency. 231 employees left the Bank at a cost of €41 m
- 4Q17 Staff costs totaled €23,2 m, with the quarterly increase primarily driven by the reassessment of the practice of accruing for vesting accumulated paid absences following the VEES
- A new organization structure is being introduced aiming to improve customer service and response, automate procedures, delay and reduce the cost structure
- Cost to income ratio of 68% for FY17 (adj for VEES), compared to 58% for FY16

Highlights of income statement

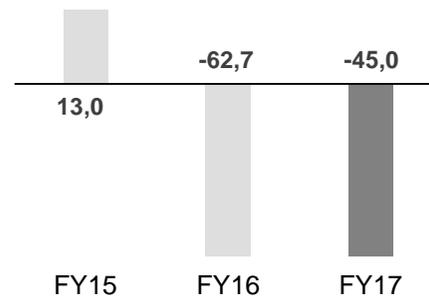
Income Statement trends (€m)



Profit before provisions (€m)



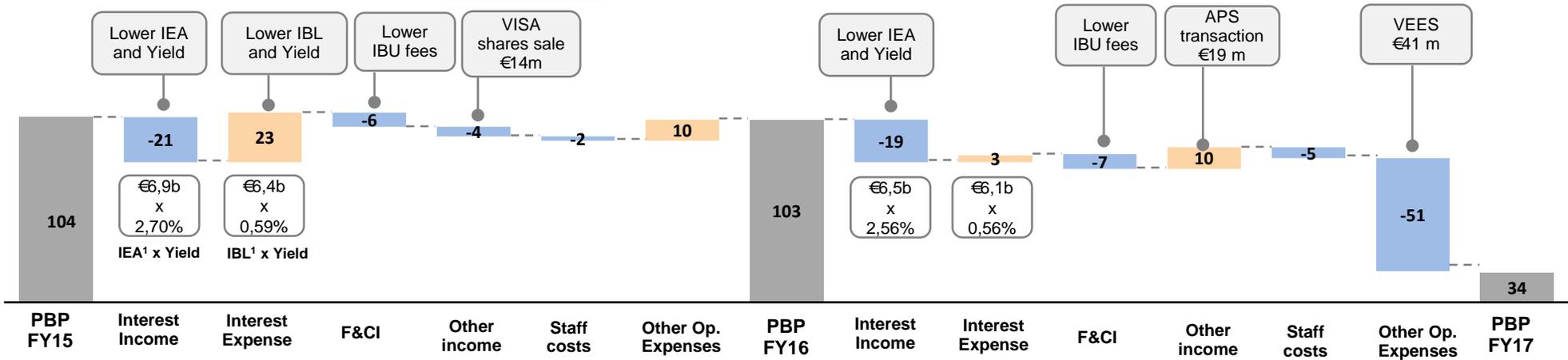
Profit/(Loss) after tax (€m)



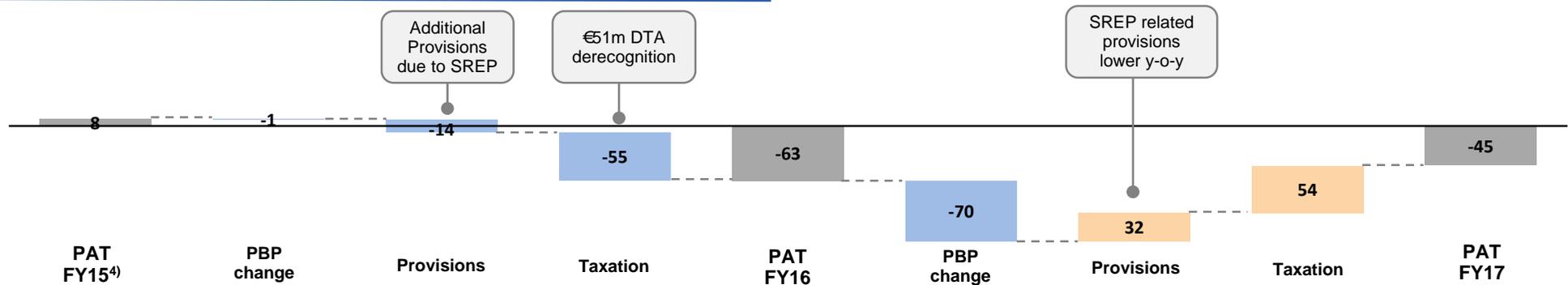
- 4Q17 Loss after tax of €27,3 m, compared to a loss after tax of €67,6 m for 4Q16, mainly due to the VEES cost of €41,3 m
- FY17 Profit before provisions of €33,6 m, positively benefiting from the €19,0 m gain from the APS transaction and negatively affected by the VEES cost
- FY17 Loss after tax of €45,0 m compared to a Loss after tax of €62,7m for FY16.

Income statement bridge analysis

Profit before provisions (PBP) bridge (€m) 2015-2017



Profit after tax (PAT) bridge (€m) 2015-2017



NTBV²⁾

3,11

2,71

2,64

T1 ratio³⁾

16,8%

16,9%

17,6%

1) IEA = Average Interest Earning Assets (year-to-date); IBL=Average Interest Bearing Liabilities, (year-to-date) 2) Net Tangible Book Value per share 3) Tier 1 capital ratio (Fully Loaded) 4) Excluding discontinued operations . Numbers may not add up due to rounding

Key takeaways

- **Improving asset quality**
 - ✓ 1st Cypriot bank to agree an NPE portfolio sale
 - ✓ 9th consecutive quarterly NPEs reduction; Post NPE trade agreement, NPEs ratio at 53,3%
 - ✓ NPEs provision coverage at 60%, post NPE trade agreement; Net NPEs collateral coverage at 136%
 - ✓ Net NPEs to Assets at 13%, significantly lower than Cypriot peers
- **CET1 ratio (FL) of 13,8% and Tier 1 ratio (FL) of 17,6%**, well above minimum capital requirements and compare well with EU average; IFRS 9 impact estimated as a reduction of €34 m (net of tax) in shareholders' equity on 1 January 2018; impact will be phased in over a five year period for capital regulatory purposes, **is manageable and well within the Group's capital plans**
- **New lending** of €526 m during FY17, as part of the Bank's "Build" strategy; Performing loan book increased by 5,4% during FY17
- **A solid deposit franchise**, with low ratio of loans to deposits enabling business expansion
- **FY17 Profit before provisions of €33,6 m**, affected by the VEES cost. FY17 Loss after tax of €45 m; VEES and reorganization to improve efficiency and reduce cost base

Other information

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Credit Ratings

Moody's – 20 June 2017
 Long and short-term Bank Deposit Rating: Caa1/NP
 Commercial Paper: Not Prime
 Baseline Credit Assessment: caa2
 Positive outlook

Fitch – 13 April 2017
 Long and short-term Issuer Default Rating: B/B
 Viability rating: b
 Stable outlook

Branch Network:

- 51 branches and 5 cash offices (*44 branches and 8 cash offices in March 2018*)
- 7 Commercial Centres
- 2 Corporate Centres
- 1 Transaction Banking Shipping (*Shipping customers can be serviced at any International Business Centre*)
- 3 International Business Centres
- 4 Representative Offices

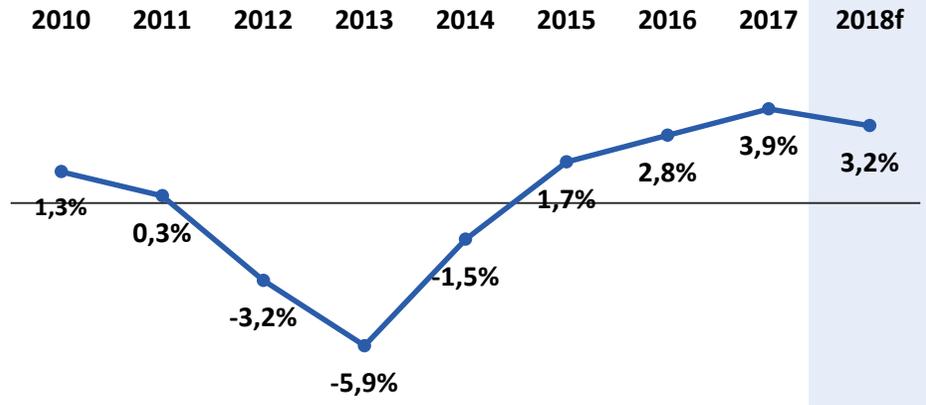
Securities ISIN numbers:

- HB (shares) - CY0105570119
- HBCS1 (CSC 1) - CY0144170111
- HBCS2 (CSC 2) - CY0144180110

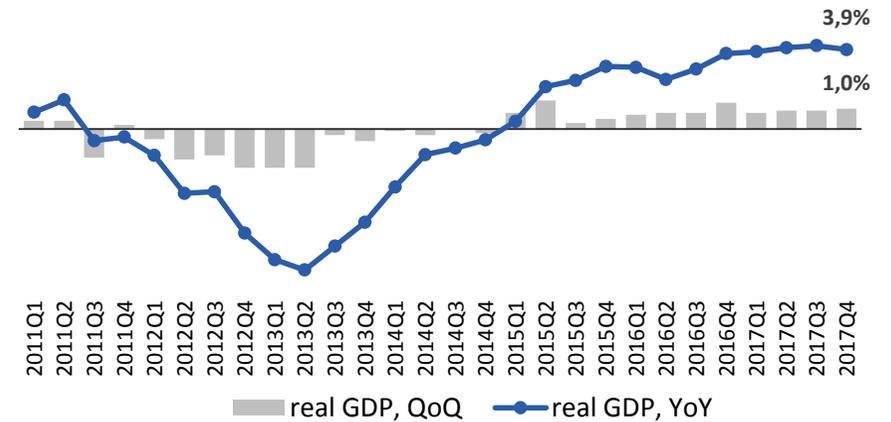
Appendix – Economic environment and Additional information

Strong growth driven by consumption and investment

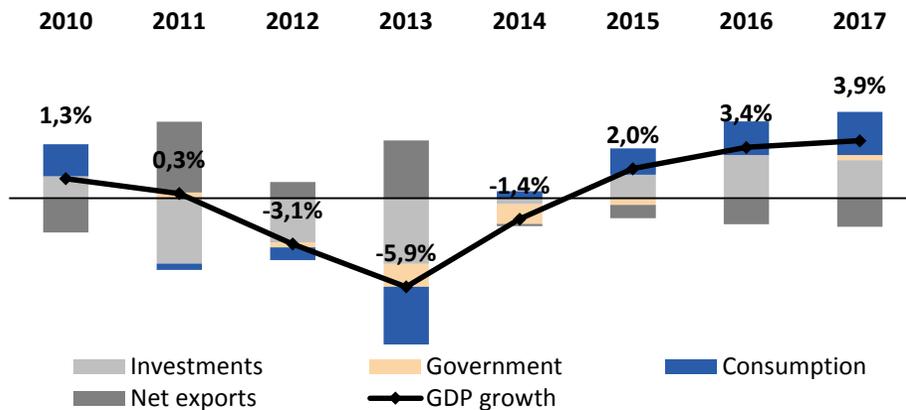
Annual Real GDP growth (y-o-y % change)



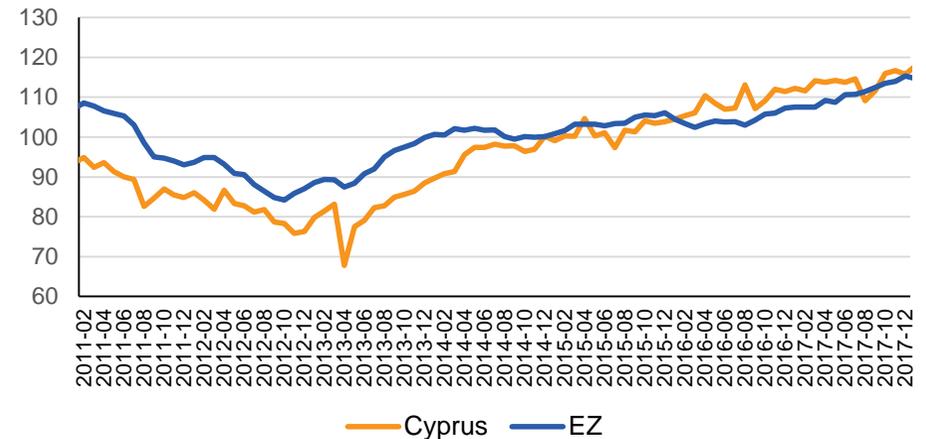
Quarterly Real GDP growth (y-o-y and q-o-q % change)



Real GDP growth and contributions (y-o-y % change)

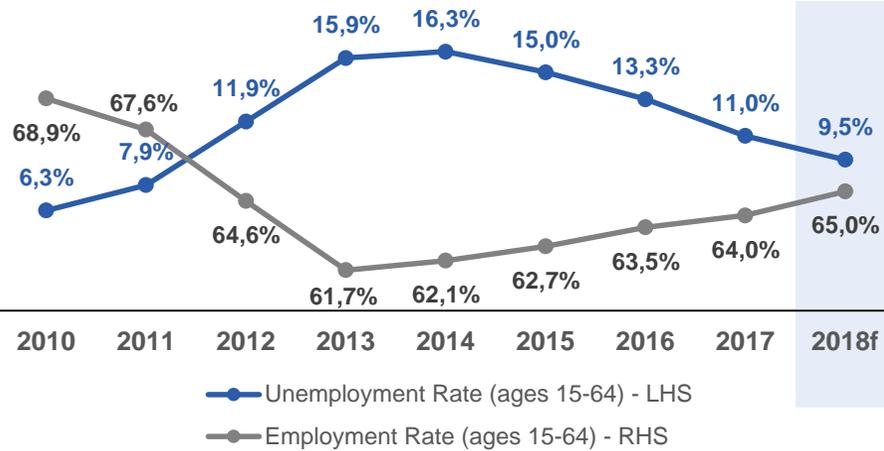


Strong rebound in Economic Sentiment Indicator

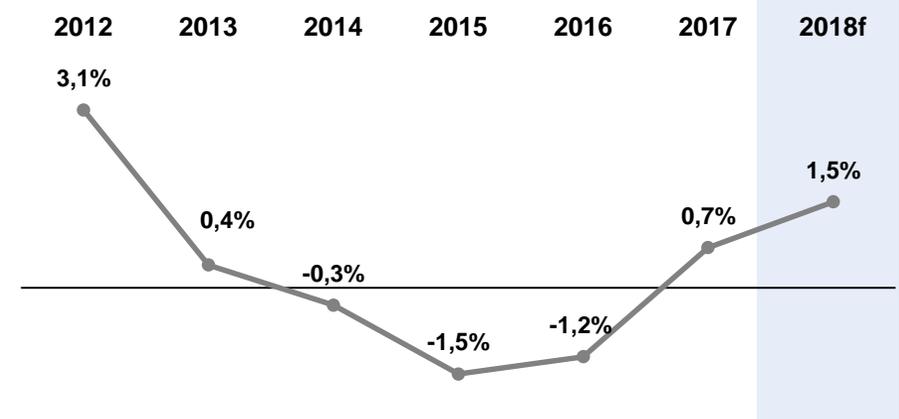


Labor market conditions and inflation continue to improve

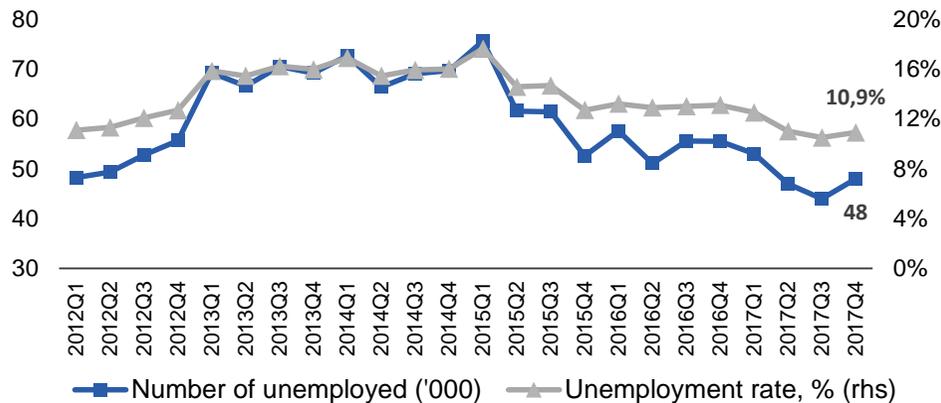
Unemployment in steady decline



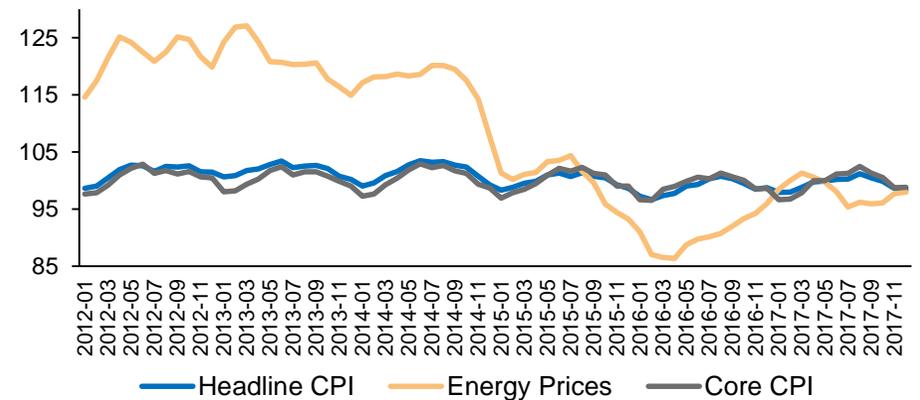
Inflation on a positive trajectory



Number of Unemployed and Unemployment rate

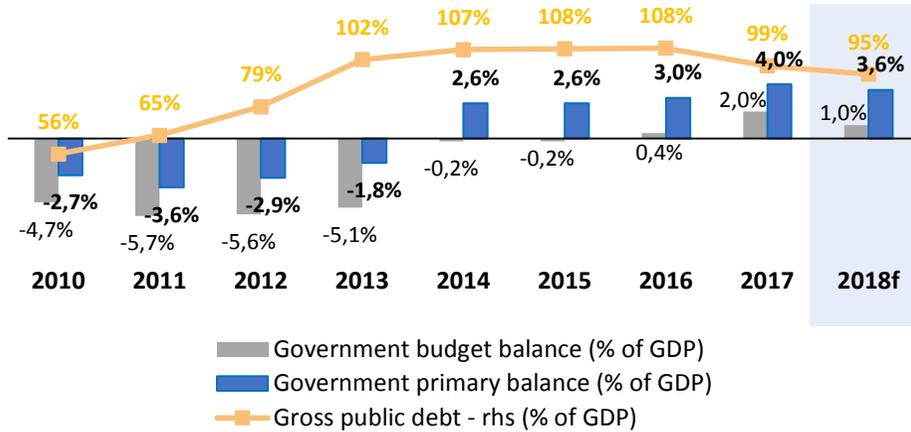


Historical evolution of Consumer Price Index

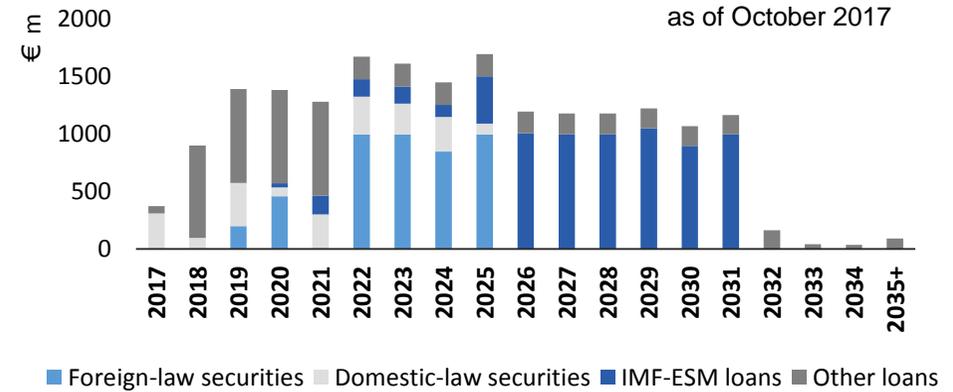


Prudent fiscal policy delivers strong results and reflected in higher sovereign credit ratings

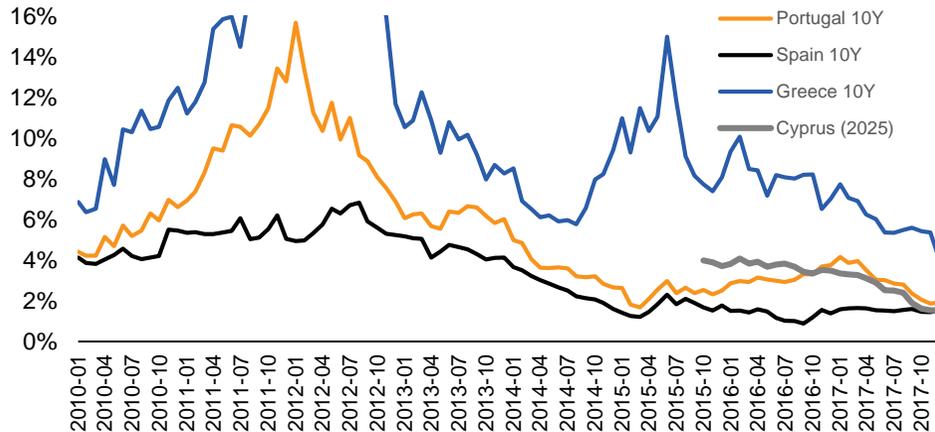
Public Finances (% of GDP)



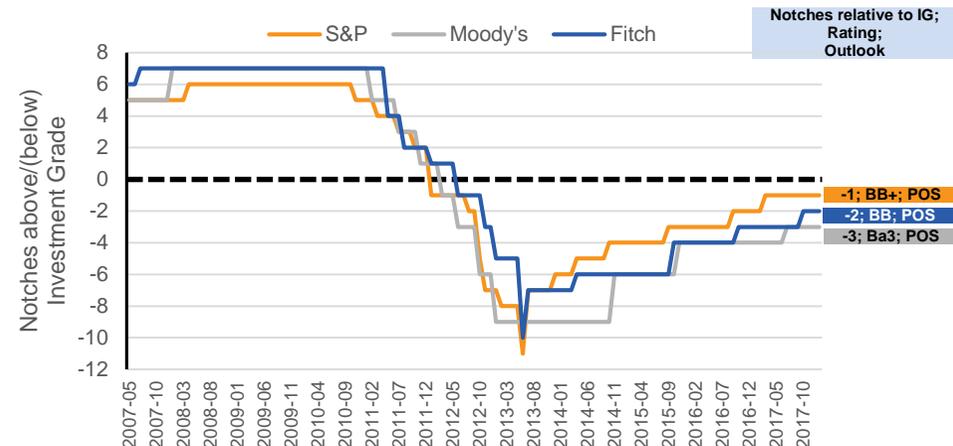
Maturity Profile of General Government Debt



Government Bonds

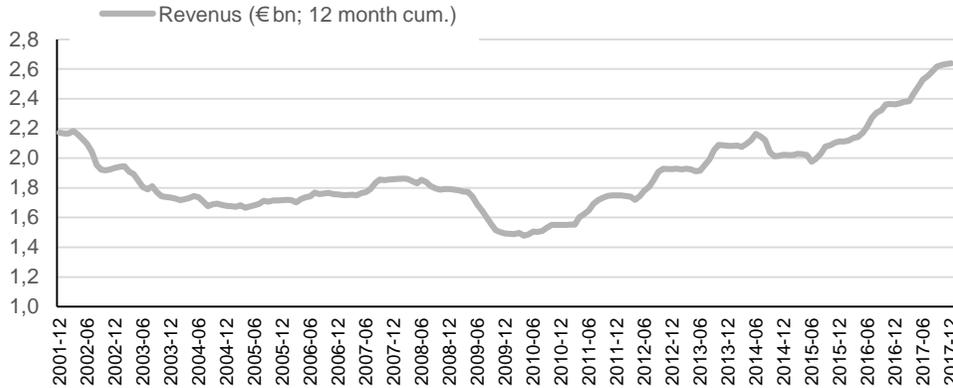


Cyprus credit rating relative to “investment grade”

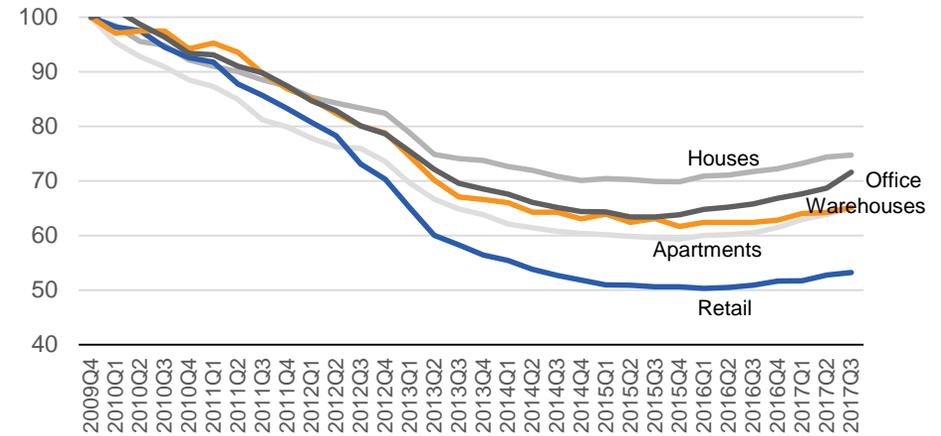


Strong performance by the tourism industry - Real estate sector showing signs of recovery

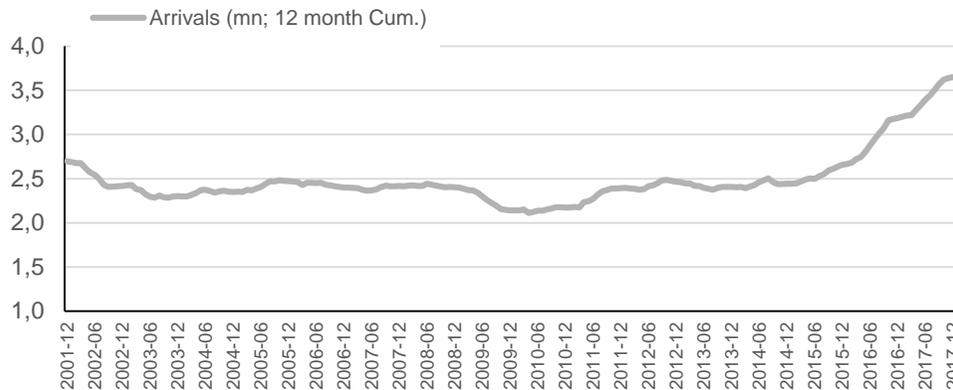
Tourism revenues



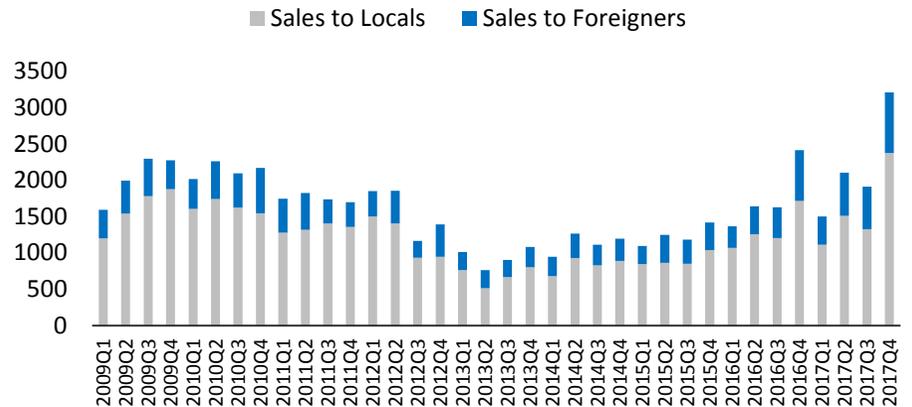
Real estate prices (base Dec 2009); RICS



Tourism arrivals

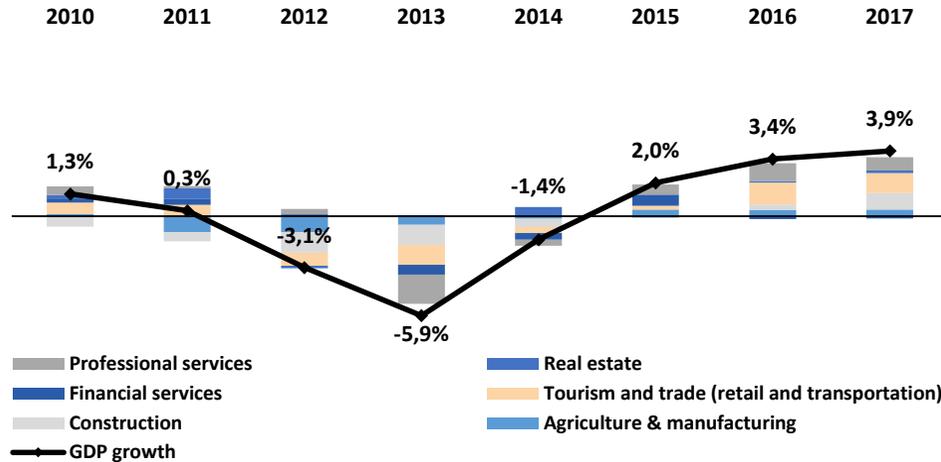


Number of contracts of property sales

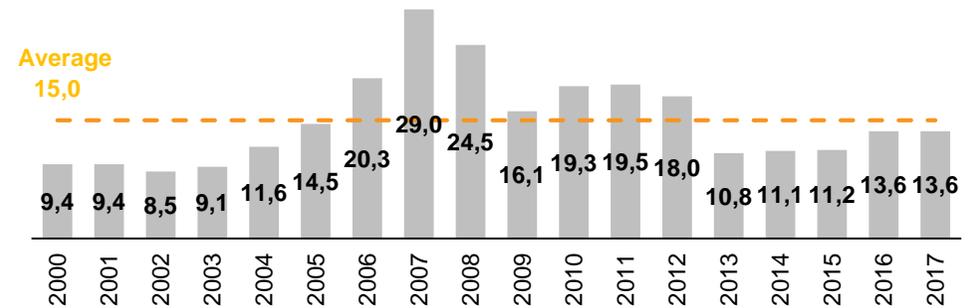


Cyprus offers a diversified economy with a broad based recovery - Construction sector showing signs of bottoming out

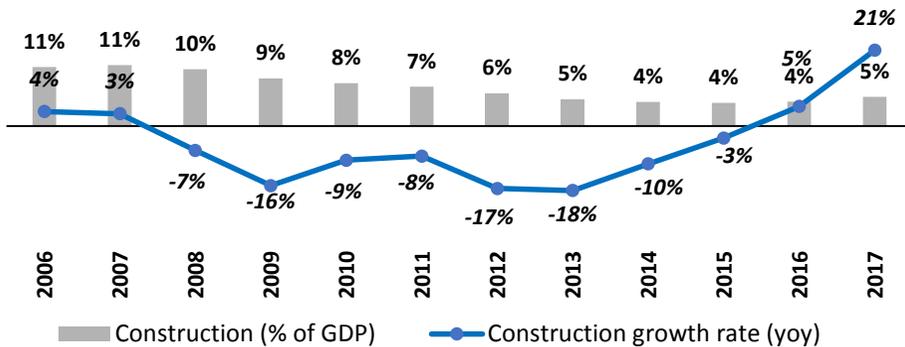
Broad based recovery



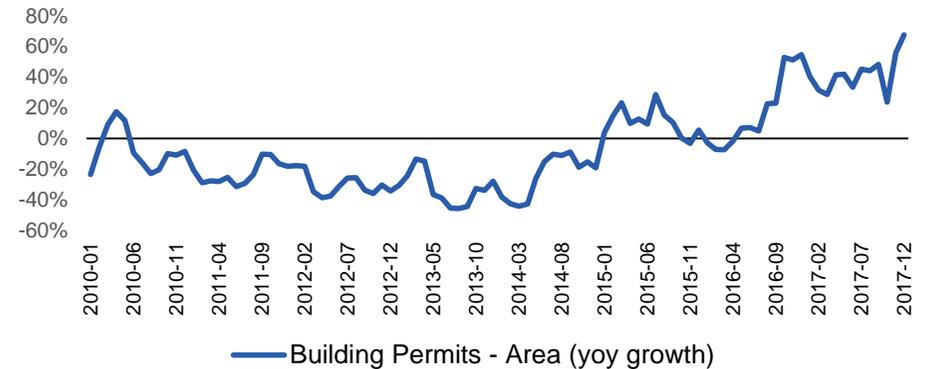
Number of new business registrations ('000)



Construction sector is gaining momentum

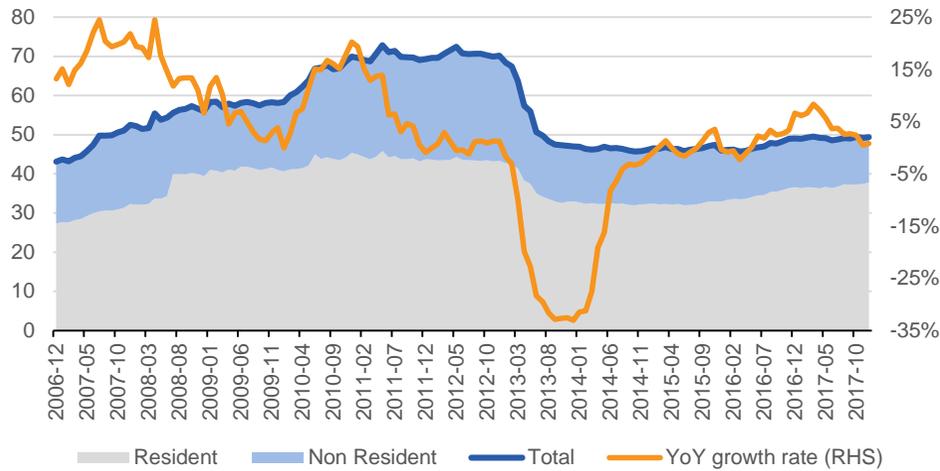


Construction – leading indicator (%)

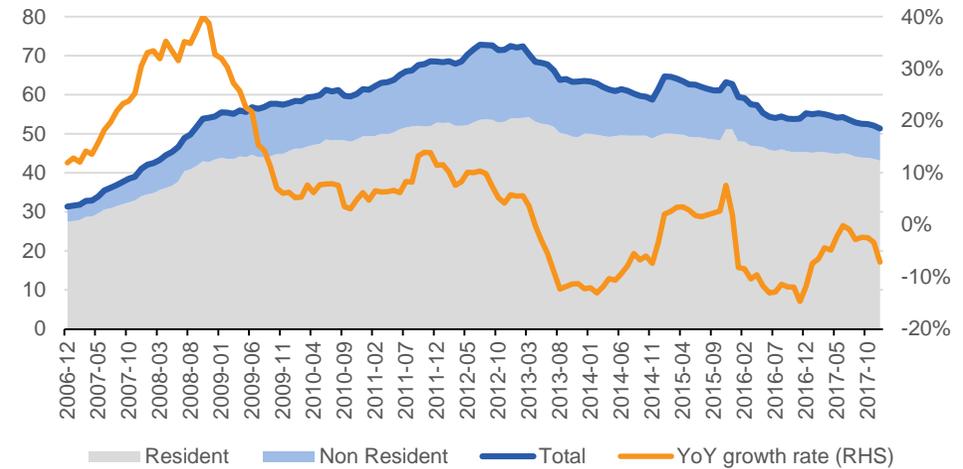


Domestic banking system

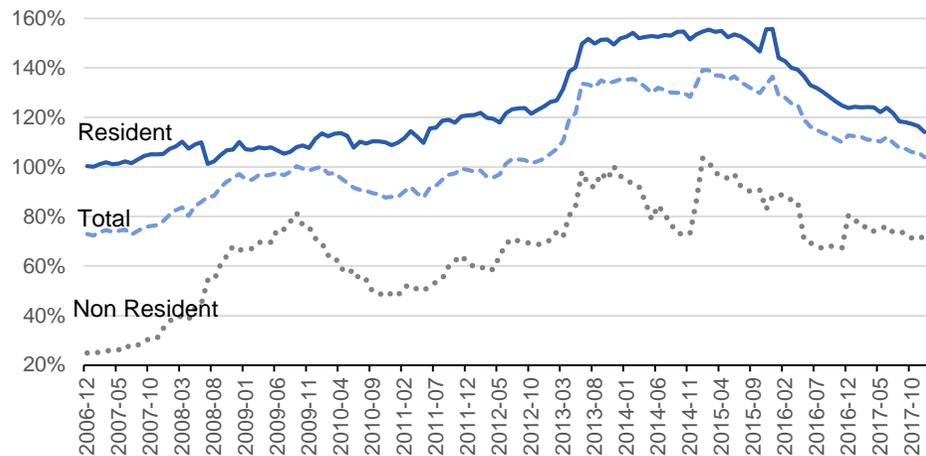
Banking system deposits



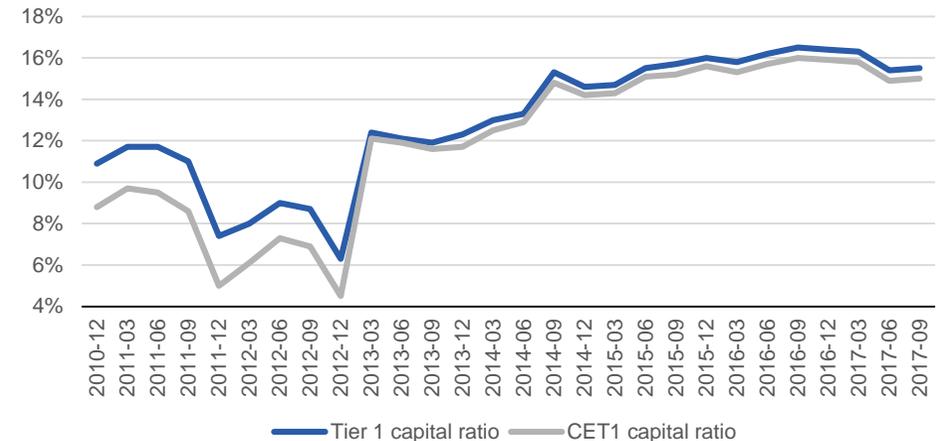
Banking system loans



Loans to Deposits ratios

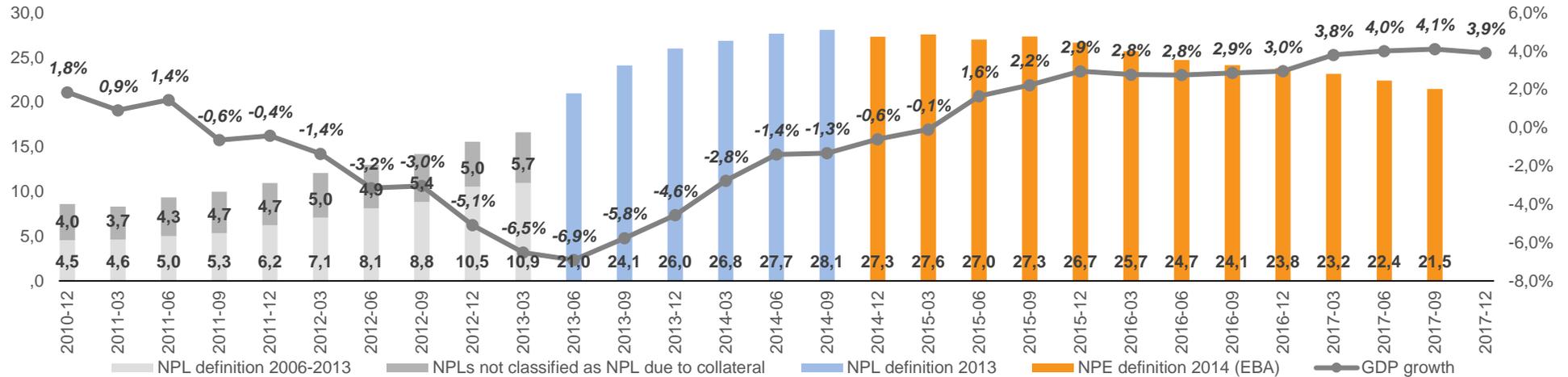


Capital ratios

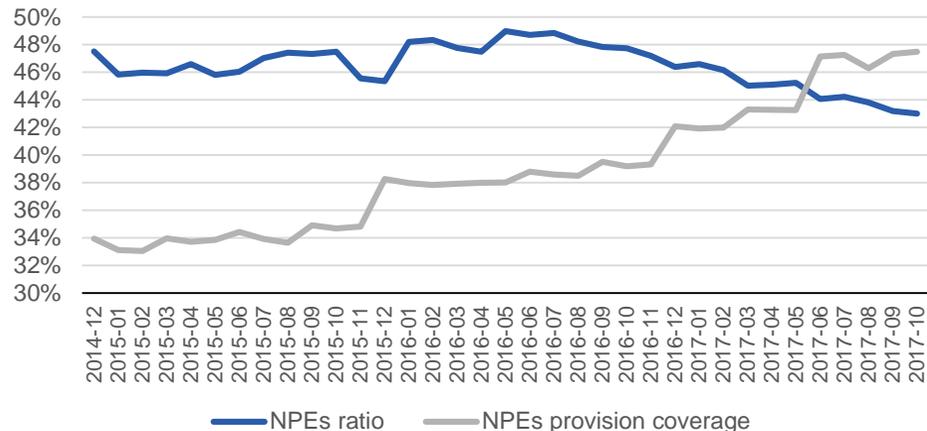


Domestic banking system

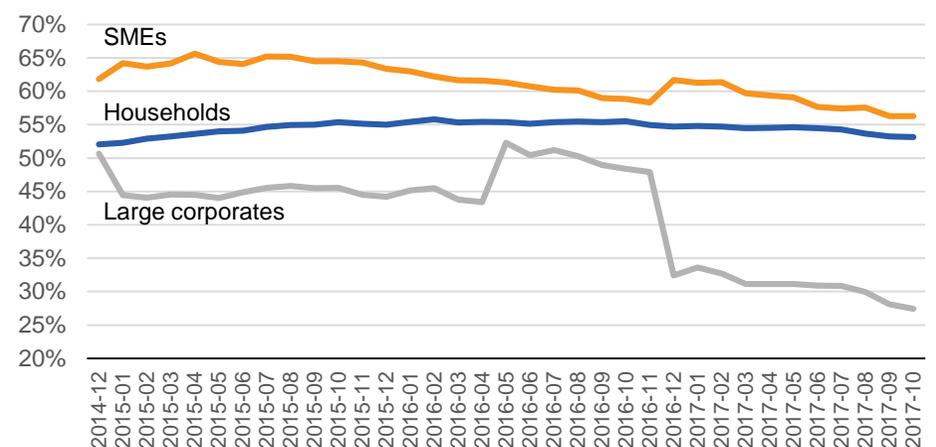
Banking system problem loans vs Economic growth



NPEs ratio and NPEs provision coverage



NPEs ratio by type of borrower



Source: Central Bank of Cyprus, Cyprus Statistical Services, HB – Economic Research

Group income statement

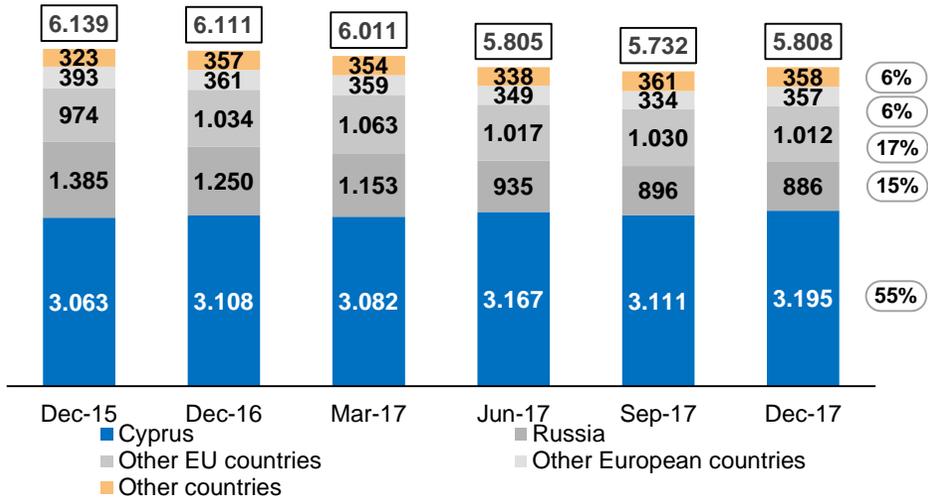
[€m]	FY17	FY16	y-o-y	4Q17	3Q17	q-o-q	2Q17	1Q17	4Q16
Interest income	165,9	185,2	(10%)	39,8	40,8	(2%)	42,0	43,3	46,4
Interest expense	(34,7)	(37,7)	(8%)	(7,9)	(7,9)	(0%)	(9,5)	(9,5)	(9,7)
Net interest income	131,2	147,5	(11%)	32,0	32,9	(3%)	32,6	33,8	36,8
Net fee and commission income	45,3	52,0	(13%)	12,0	11,2	8%	11,3	10,8	14,8
Net gains on disposal and revaluation of foreign currencies and financial instruments	12,4	27,4	(55%)	2,3	2,5	(9%)	4,8	2,9	2,8
Other income	45,6	20,8	120%	7,2	6,0	19%	23,7	8,7	7,2
Total net income	234,5	247,7	(5%)	53,4	52,5	2%	72,4	56,1	61,6
Staff costs	(86,9)	(82,0)	6%	(23,2)	(20,3)	14%	(22,5)	(20,9)	(20,8)
Depreciation and amortisation	(8,1)	(6,1)	33%	(2,6)	(1,9)	41%	(1,8)	(1,8)	(1,7)
Administrative and other expenses	(105,8)	(56,4)	88%	(59,4)	(16,9)	252%	(13,3)	(16,3)	(14,2)
Total expenses	(200,9)	(144,5)	39%	(85,2)	(39,0)	118%	(37,6)	(39,0)	(36,7)
Profit from ordinary operations before impairment losses and provisions to cover credit risk	33,6	103,2	(67%)	(31,7)	13,5	(335%)	34,8	17,1	24,9
Impairment losses & provisions to cover credit risk	(82,9)	(115,2)	(28%)	2,4	(7,7)	(131%)	(50,3)	(27,3)	(51,1)
Share of results of associate company	0,8	-	100%	0,3	0,5	(32%)	-	-	-
(Loss)/profit before taxation	(48,5)	(12,0)	303%	(29,0)	6,3	(562%)	(15,6)	(10,2)	(26,2)
Taxation	3,5	(50,6)	(107%)	1,8	(1,2)	(249%)	2,8	0,2	(41,4)
(Loss)/profit for the year	(45,0)	(62,7)	(28%)	(27,3)	5,1	(634%)	(12,8)	(10,1)	(67,6)
Non-controlling interest	(0,6)	(0,8)	(25%)	(0,0)	(0,1)	(102%)	(0,1)	(0,4)	(0,3)
(Loss)/profit attributable to shareholders of parent company	(45,7)	(63,5)	(28%)	(27,3)	5,0	(646%)	(12,9)	(10,5)	(67,9)

Group statement of financial position

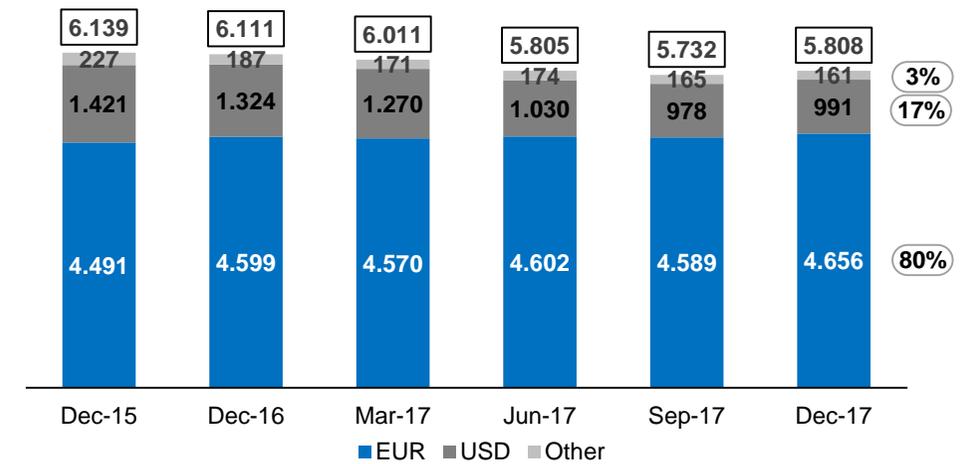
[€ m]	Dec-17	Dec-16	Change	% Assets		Sep-17	Jun-17	Mar-17
				Dec-17	Dec-16			
Cash and balances with Central Banks	2.294	2.083	10%	34	30	2.069	2.055	2.015
Placements with other banks	348	549	(37%)	5	8	444	476	607
Loans and advances to customers	2.767	2.926	(5%)	40	42	2.748	2.780	2.904
Debt securities	1.019	1.149	(11%)	15	16	1.046	1.069	1.080
Equity securities and collective investment units	30	16	88%	0	0	17	16	16
Investment in associate	8	-	100%	0	0	7	7	-
Property, plant and equipment	103	100	3%	2	1	101	100	100
Intangible assets	34	27	29%	0	0	32	31	29
Deferred tax asset	12	8	45%	0	0	11	12	9
Other assets	232	179	29%	3	3	214	209	162
Total assets	6.847	7.038	(3%)	100	100	6.689	6.754	6.921
Deposits by banks	176	101	75%	3	1	112	115	78
Customer deposits and other customer accounts	5.808	6.111	(5%)	85	87	5.732	5.805	6.011
Other liabilities	160	119	34%	2	2	126	132	128
Total liabilities	6.145	6.331	(3%)	90	90	5.971	6.052	6.218
Loan capital	140	140	0%	2	2	140	140	140
Share capital	99	99	0%	1	1	99	99	99
Reserves	460	464	(1%)	7	7	476	460	460
Shareholders' equity	559	563	(1%)	8	8	575	559	560
Non-controlling interest	3	3	1%	0	0	3	4	4
Total liabilities and equity	6.847	7.038	(3%)	100	100	6.689	6.754	6.921

Evolution of deposits

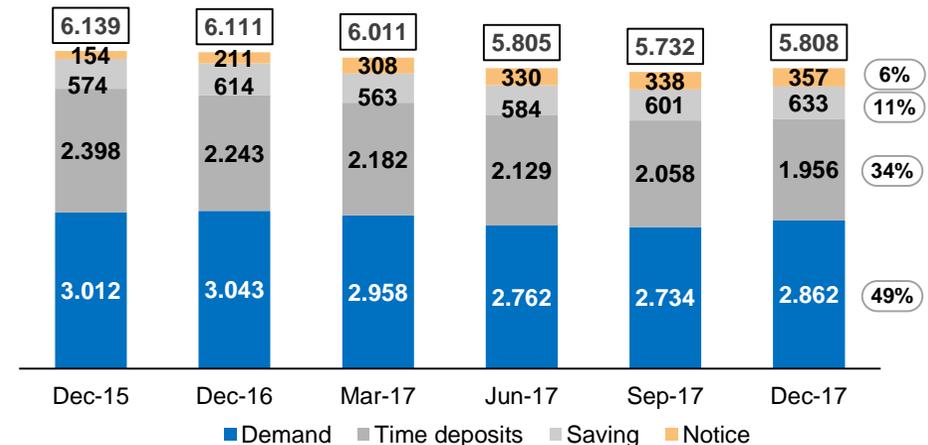
Deposits by country of customer (€m)



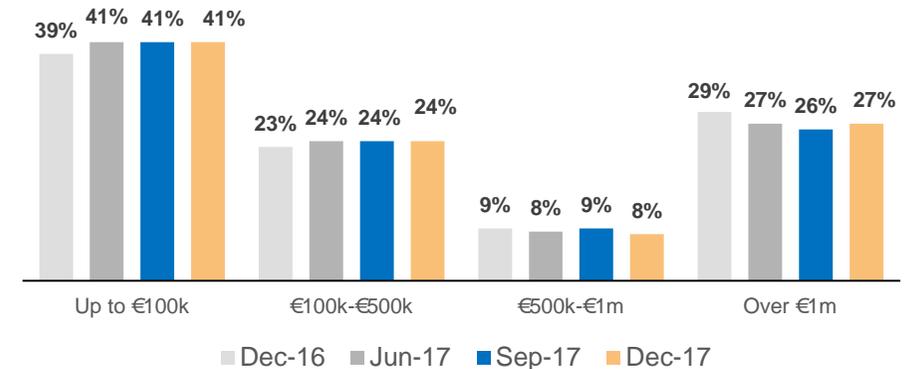
Deposits by currency (€m)



Deposits by category (€m)



Deposits split by size



Abolition of prudential liquidity framework and introduction of a national macroprudential liquidity measure by CBC

BASEL III REGULATIONS	Regulatory Minimum	HB position at Dec-17	SUMMARISED FRAMEWORK	Implementation Dates
LCR ALL CURRENCIES	100%	277%	LIQUIDITY COVERAGE RATIO (LCR): Designed to ensure that financial institutions have the necessary liquid assets to overcome short-term liquidity disruptions, i.e. expected net deposit outflows over the <u>next 30 days</u> .	Officially launched in EU in October 2015. Requirement stands at 80% but reaches 100% when fully phased on 1/1/18.
NSFR ALL CURRENCIES	100%	158%	NET STABLE FUNDING REQUIREMENT (NSFR): Shows the availability of stable funding in relation to the required level of stable funding, based on the riskiness of assets. Essentially requires banks to maintain stable funding sources to reduce the likelihood of disruptions in their funding that will deplete its liquidity in a way that could increase the risk of failure.	NSFR will be officially introduced in 2018.

Significant buffer

- On 20 December 2017, CBC abolished its prudential liquidity limits **from 1 January 2018**. A “national macroprudential liquidity measure” has been introduced from 1 January 2018, which comprises of additional liquidity requirements in the form of “add-on” rates on some of the LCR parameters and some other items which are not subject to any outflow rates according to the LCR regulation. This national macroprudential measure will be in force until the 31st of December 2018, with the add-ons being relaxed by 50% for the second half of 2018. CBC might decide to extend this measure further. The Bank is currently in full compliance with this new LCR add-on.

Capital and risk weighted assets breakdown

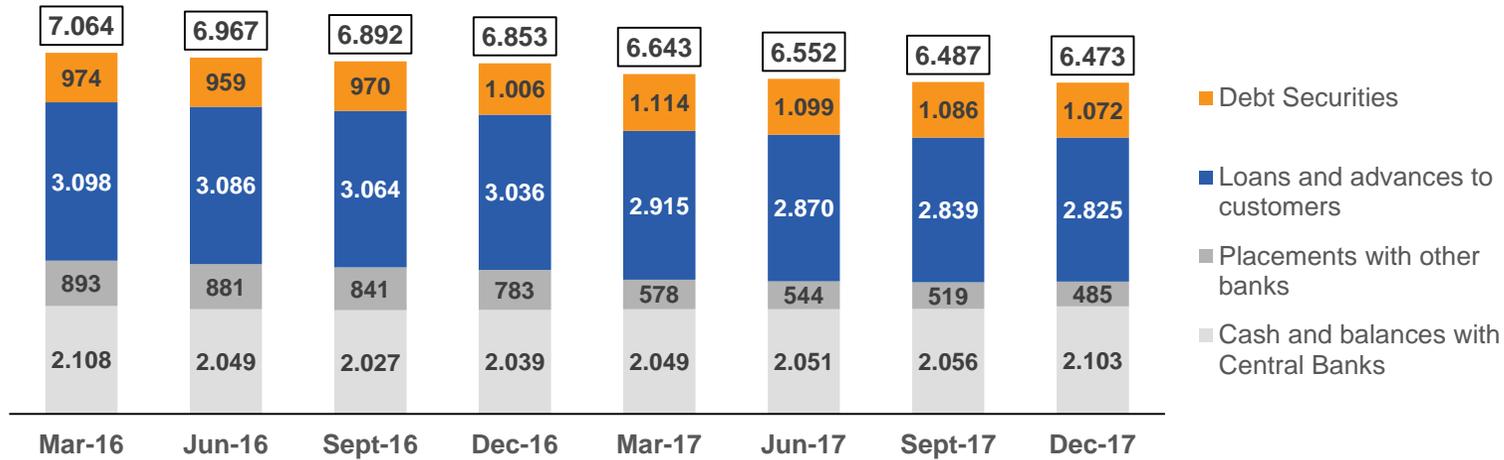
Capital breakdown €m	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
CET 1	539	584	518	503	486	501	483
Additional Tier 1	114	116	119	124	123	123	122
Tier 1	653	700	637	627	609	624	605
Tier 2	81	18	9	6	5	5	5
Total regulatory capital	734	718	645	633	614	629	611

Risk Weighted Assets €m	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Credit Risk	3.480	3.458	3.271	3.202	3.031	3.005	3.006
Market Risk	7.3	10	9	7	5	3	4
Operational Risk ¹⁾	540	490	463	462	461	462	410
Total RWAs	4.027	3.958	3.744	3.671	3.497	3.470	3.420

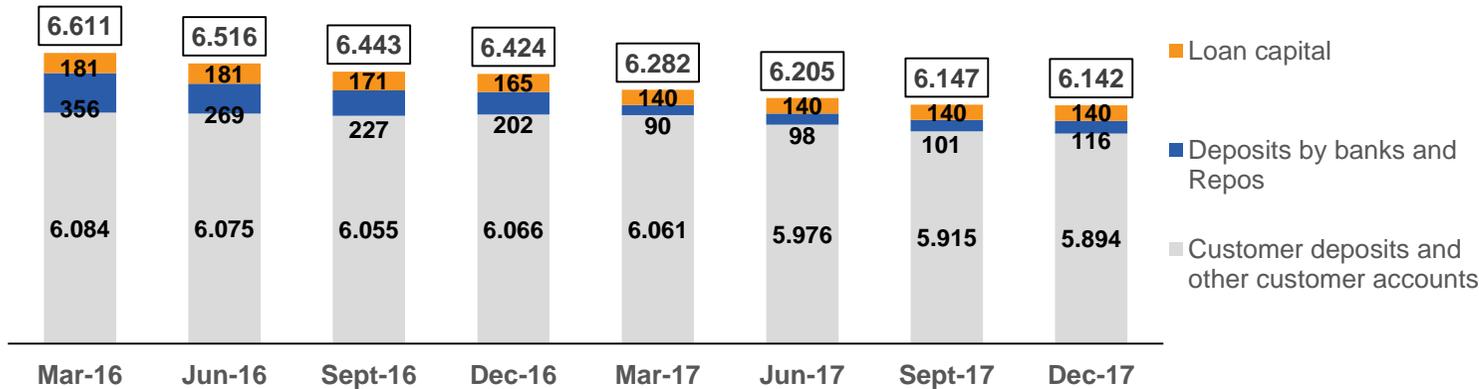
1) Including Total risk exposure amount for credit valuation adjustments
Note: Numbers may not add up due to rounding

Interest earning assets and Interest bearing liabilities breakdown

Interest earning assets (€m) (average, year-to-date)¹⁾



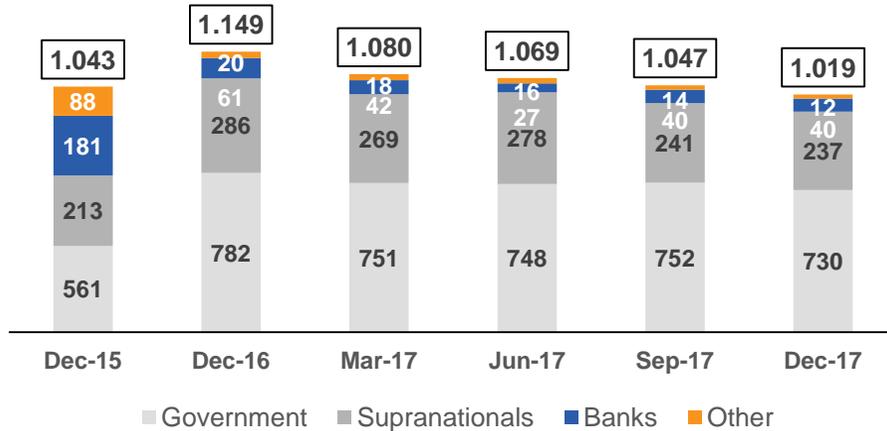
Interest bearing liabilities (€m) (average, year-to-date)¹⁾



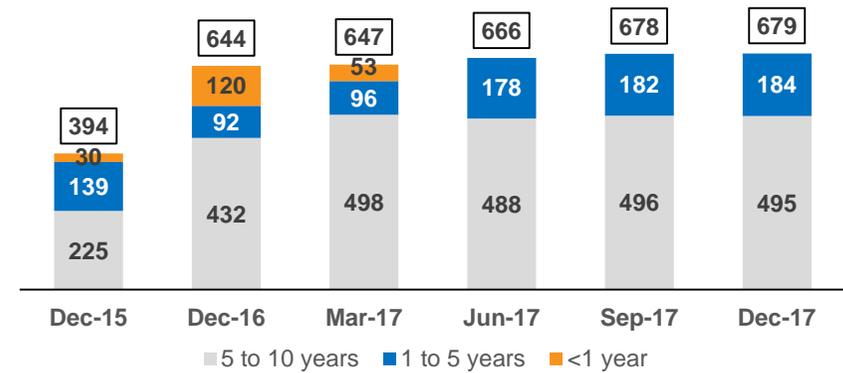
¹⁾Figures do not add up due to adjustment for accrued interest. Numbers may not add up due to rounding and averages

Detailed breakdown of investments in debt securities

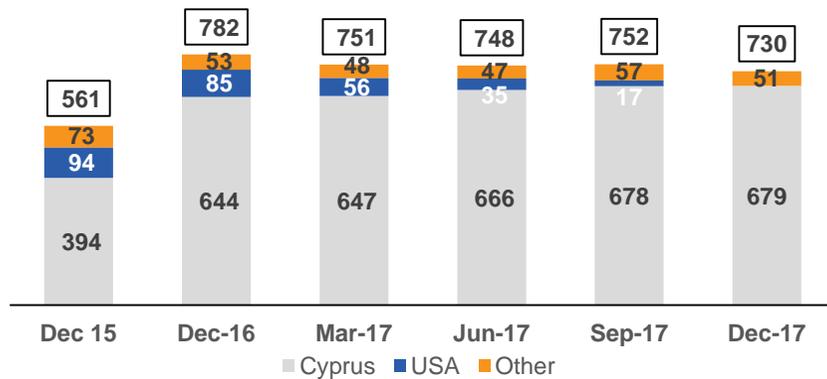
Total debt securities by issuer (€m)



Cyprus Government Bonds by maturity (€m)



Government bonds by country (€m)

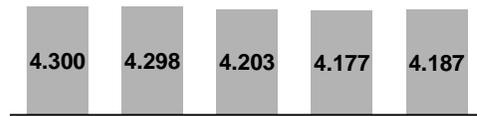


- 28% of debt securities are Aaa rated¹⁾
- 67% are investments in Cyprus Government Bonds (CyGBs) with the Republic of Cyprus currently being rated: Ba3 by Moody's, BB by Fitch, BB+ by S&P and BB(low) by DBRS
- Market value of CyGBs was €715 m at 31 December 2017, compared to a book value of €679 m
- Supranational organizations include for example Asian Development Bank, EIB, IBRD, Nordic Investment Bank

1) Moody's issuer ratings

High overall coverage on all NPE segments

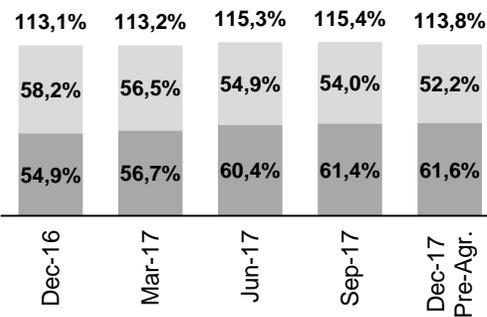
Gross loans (€m)



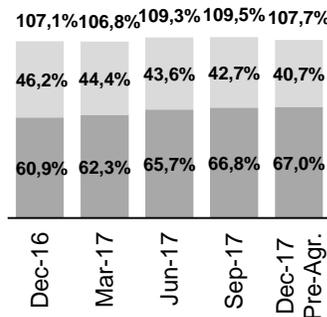
NPEs (%) of gross loans



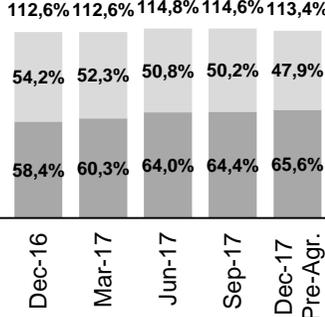
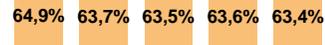
Provisions and collateral coverage²⁾ (%) of NPEs



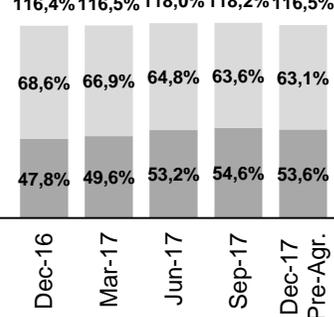
Retail



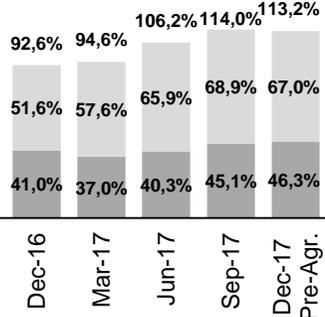
Business



Corporate



Other¹⁾



■ Provisions coverage ■ Collateral coverage

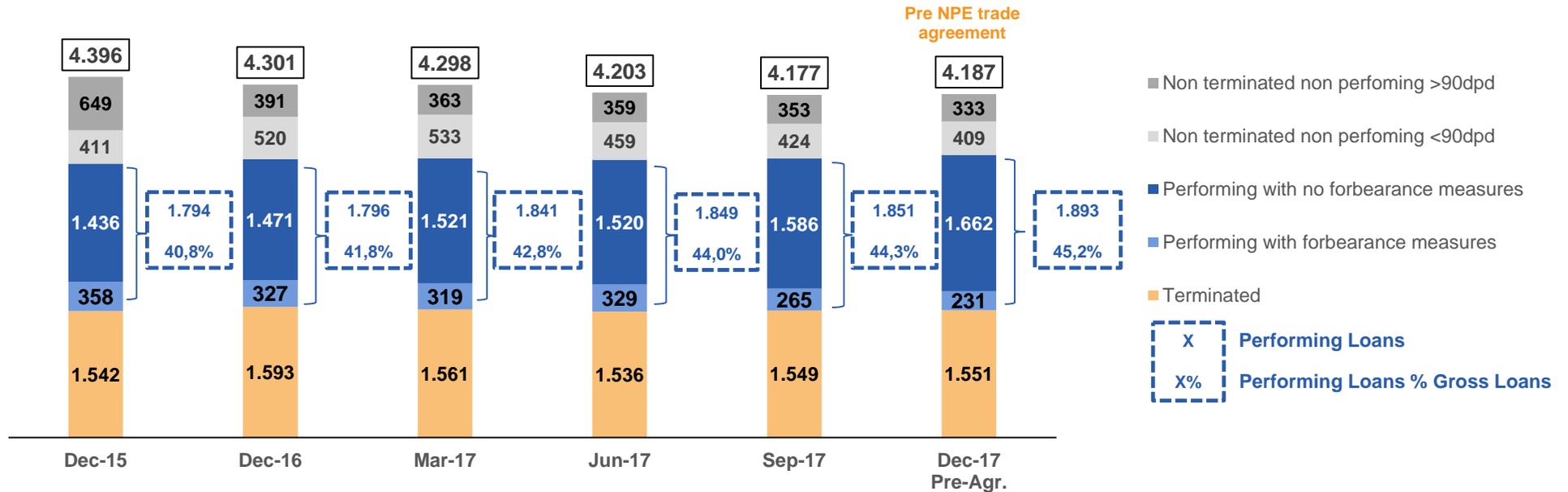
1) "Other" includes: International, International Corporates, Shipping, Leverage Finance and Other 2) Taking into account tangible collateral, based on open market values (capped at client exposure) . Classification based on internal operational segmentation (business line). Numbers may not add up due to rounding

Asset quality trends; Loans and advances to customers

[€m]	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
Carrying amount	3.093	2.926	2.904	2.780	2.748	2.767
Impaired:						
Grade 3 (high risk)	2.529	2.473	2.430	2.314	2.281	2.122
Individual impairment losses	(1.270)	(1.347)	(1.365)	(1.397)	(1.410)	(1.272)
Carrying amount	1.259	1.127	1.065	917	871	850
Of which with forbearance measures	553	562	545	458	437	433
Past due but not impaired:						
Grade 1 (low risk)	90	65	74	45	41	63
Grade 2 (medium risk)	88	84	62	33	44	47
Grade 3 (high risk)	10	3	4	11	3	9
Carrying amount	189	152	140	89	88	120
Past due comprises:						
0+ up to 30 days	65	62	55	43	43	65
30+up to 60 days	58	63	68	12	12	24
60+ up to 90 days	40	24	13	27	22	23
90 days+	25	4	4	7	10	7
Carrying amount	189	152	140	89	88	120
Of which with forbearance measures	43	62	49	37	36	44
Neither past due nor impaired:						
Grade 1 (low risk)	1.228	1.356	1.386	1.422	1.438	1.496
Grade 2 (medium risk)	424	302	328	360	358	304
Grade 3 (high risk)	27	17	14	17	13	13
Carrying amount	1.679	1.675	1.728	1.799	1.809	1.813
Of which with forbearance measures	334	275	277	311	257	208
Balances after individual impairment	3.126	2.954	2.933	2.806	2.767	2.783
Collective impairment losses	(34)	(28)	(30)	(26)	(20)	(16)
Total carrying amount	3.093	2.926	2.904	2.780	2.748	2.767

Gross loans performance analysis

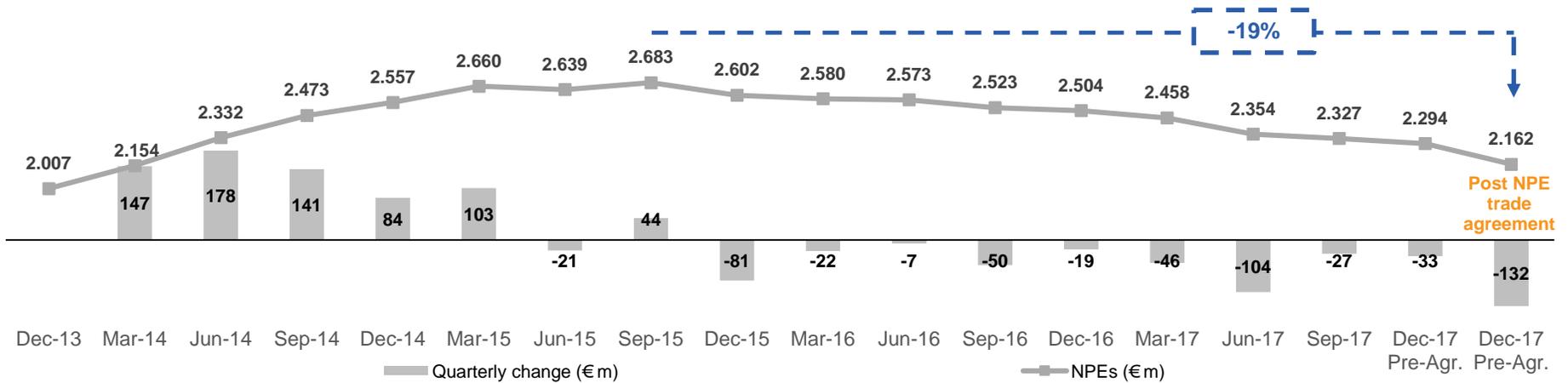
Gross loans performance evolution (€m)



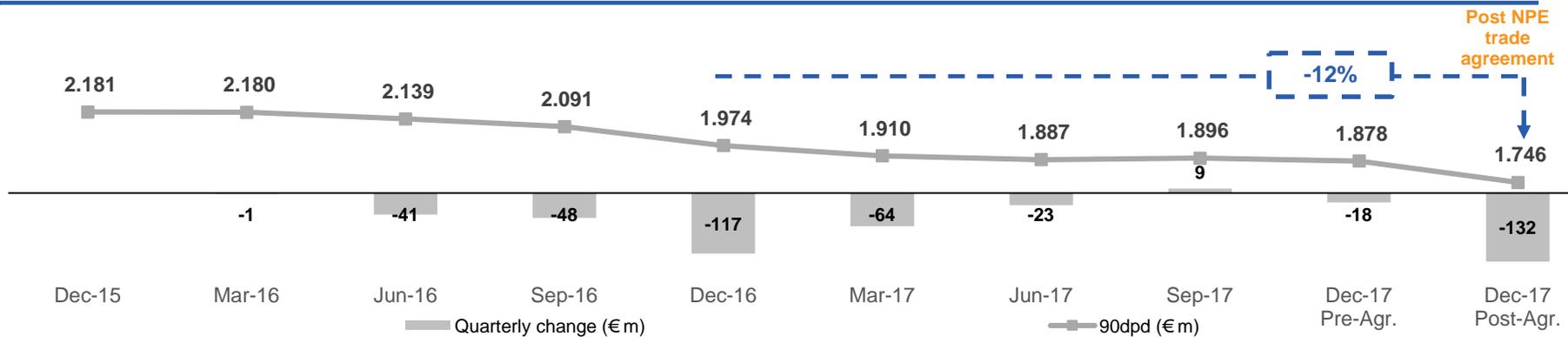
Numbers may not add up due to rounding

Problem loans movement

NPEs formation¹⁾

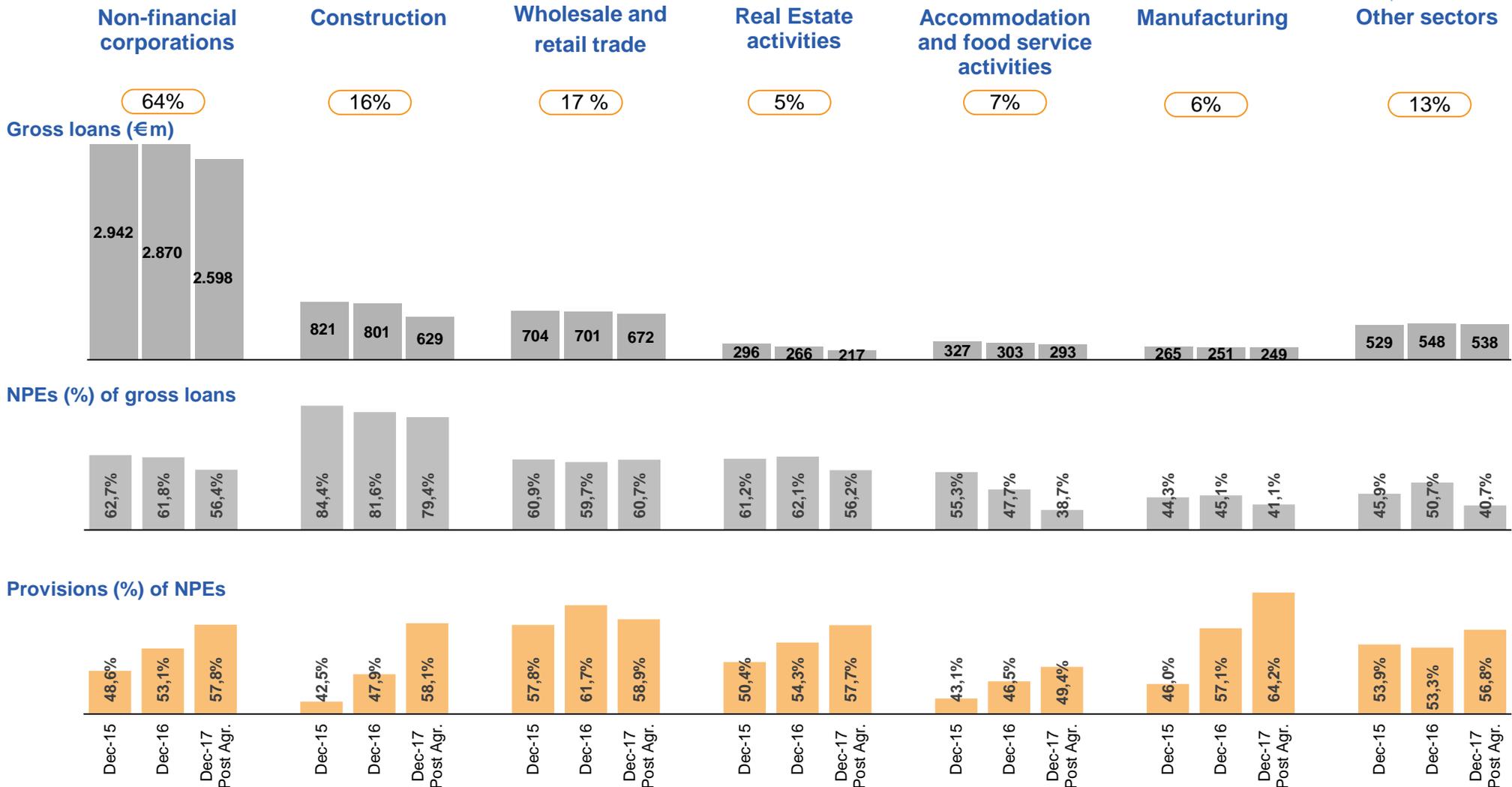


90dpd formation



1) NPE values up to September 2014 are based on CBC's definition

Non financial corporations lending: NPEs and provisions coverage



NPEs as per EBA definition

Classification based on Institutional sector codes and NACE codes (European Commission)

Other sectors" includes a number of different sectors including Professional, scientific and technical activities, Transport and storage, Human health services and social work activities

Numbers may not add up due to rounding

X% As a % of total gross loans at Dec 2017

Households lending: NPEs and NPEs provisions coverage

Households

33%

Residential mortgage loans

15%

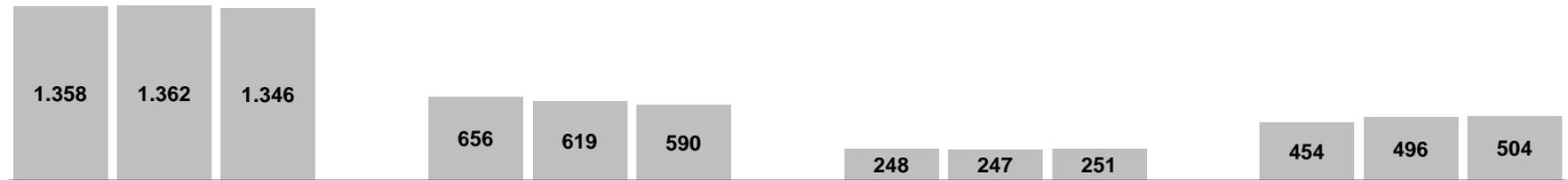
Credit for consumption

6%

Other¹⁾

12%

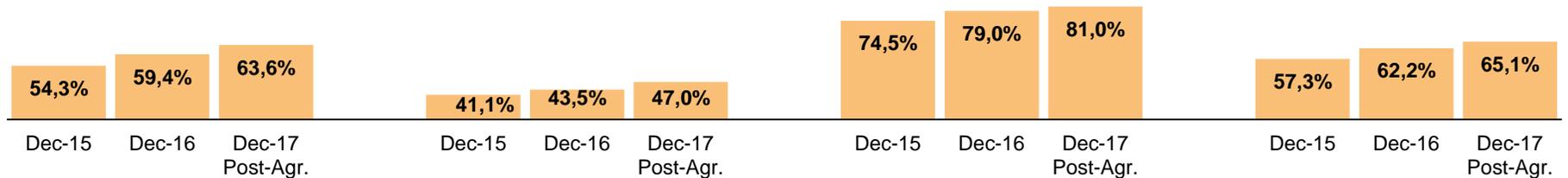
Gross loans (€m)



NPEs (%) of gross loans



Provisions (%) of NPEs



X% As a % of total gross loans at Dec-17

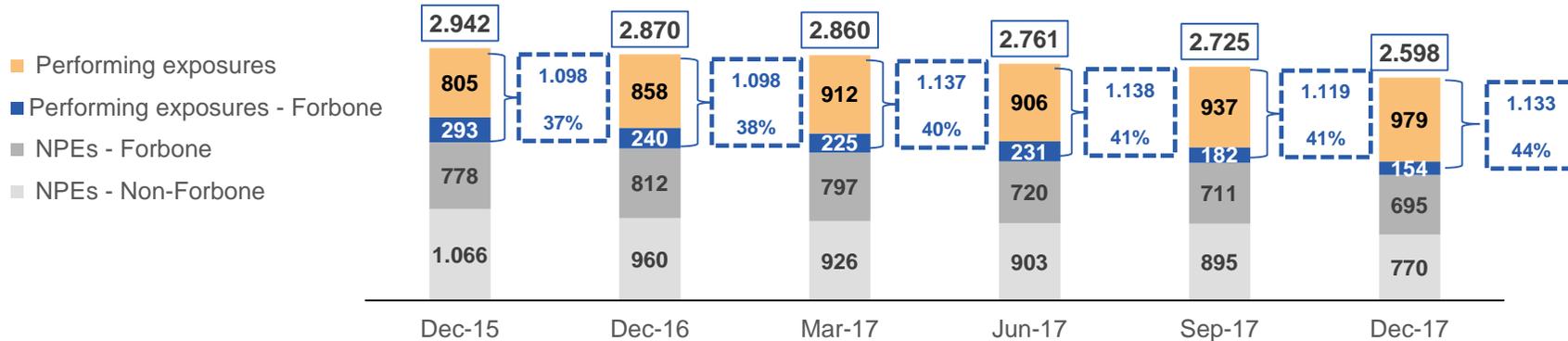
NPEs as per EBA definition

Classification based on Institutional sector codes (European Commission)

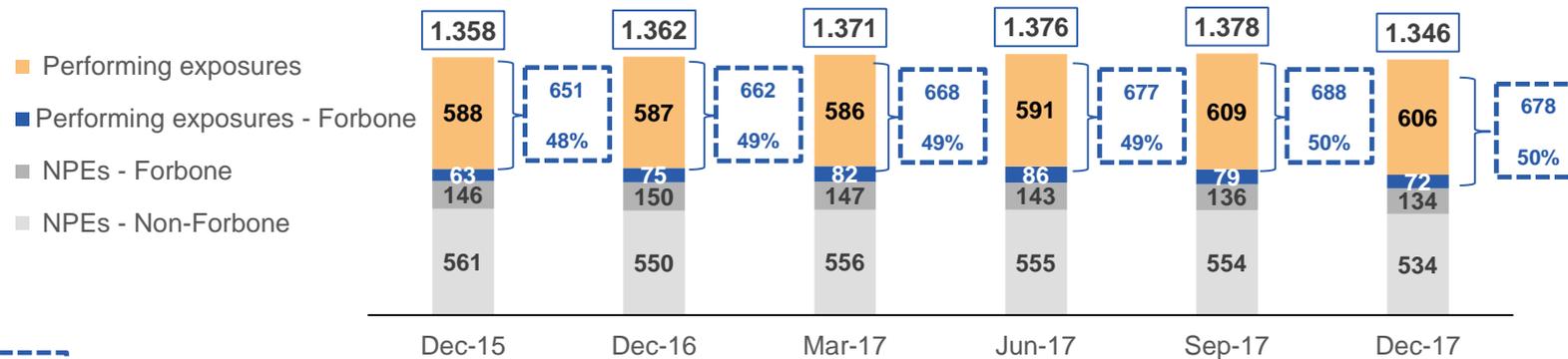
1) "Other" includes self-employed workers and non-profit institutions serving households

Loan performance analysis by type of customer

Non Financial Corporations – Analysis of loan portfolio (€m)



Households – Analysis of loan portfolio (€m)

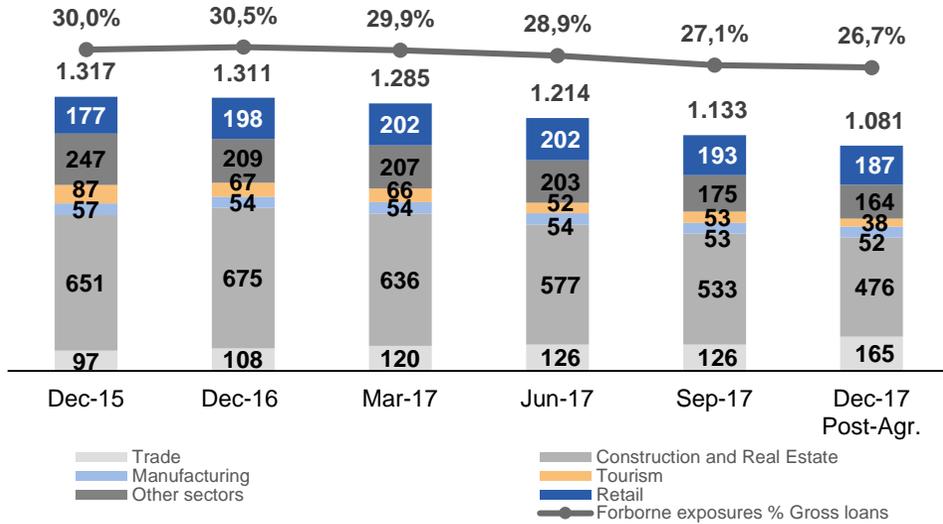


X Performing Loans
 X% Performing Loans % Gross Loans by type of customer

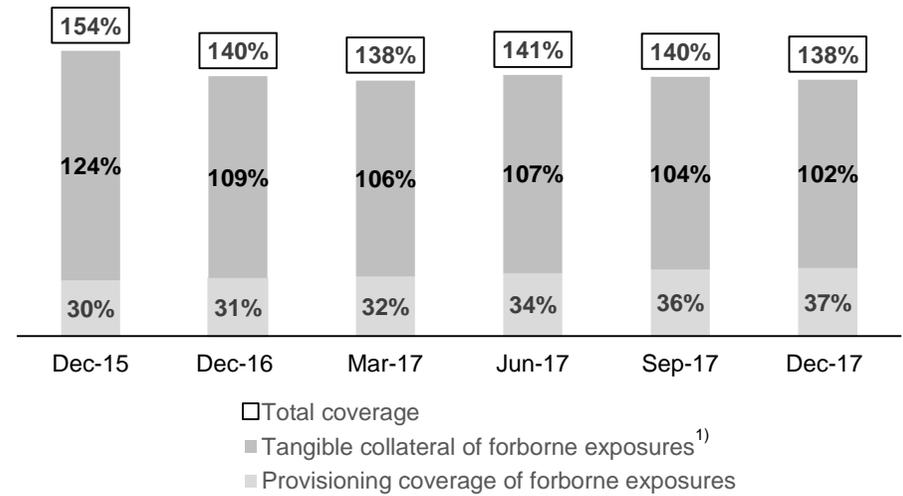
Numbers may not add up due to rounding

Forborne exposures breakdown

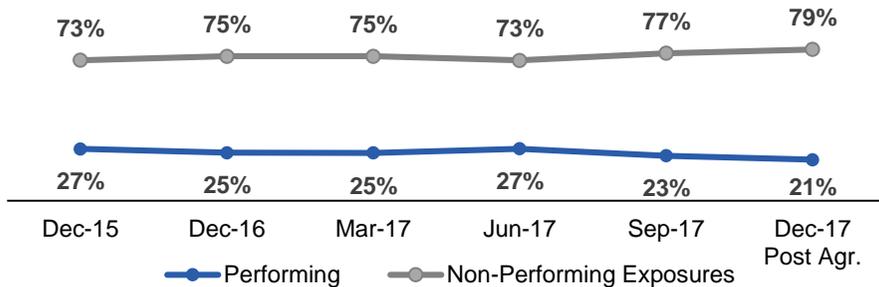
Gross forborne exposures by sector



Coverage of forborne exposures



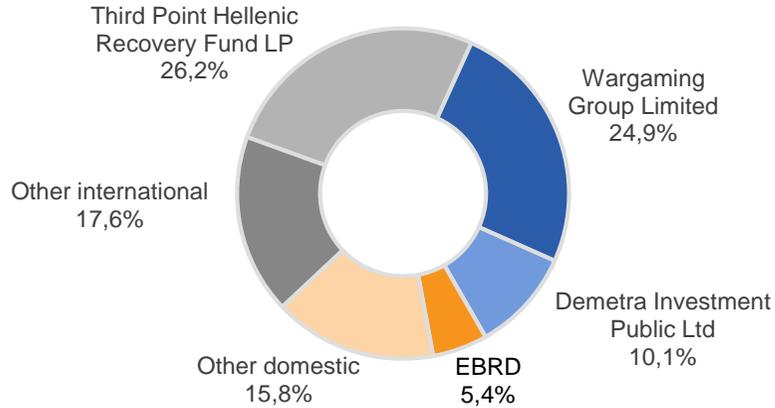
Classification of forborne exposures



1) Tangible collateral, based on open market values (capped at client exposure)
Numbers may not add up due to rounding

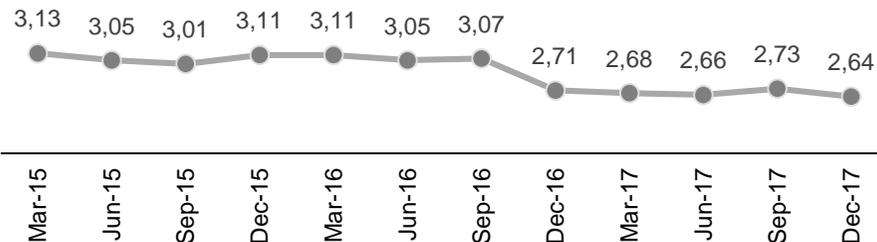
Shareholders information; Board composition

Main shareholders



Number of issued shares: 198.474.712

Net tangible book value per share evolution (€)



Board Composition

Dr. Evripides A. Polykarpou¹⁾

Chairman, Independent

Marinos S. Yannopoulos

Vice- Chairman, Non-independent

Ioannis A. Matsis

Executive, non independent

Mariana Pantelidou Neophytou²⁾

Independent

David Whalen Bonanno²⁾

Independent

Irena A. Georgiadou

Independent

Lars Kramer

Executive, Non-independent

Christodoulos A. Hadjistavris²⁾

Independent

Andreas Christofides

Independent

Lambros Papadopoulos

Independent

Andrew Charles Wynn

Independent

Stephen John Albutt

Independent

Demetrios Efstathiou

Independent

1) On 6 November 2017, the Board of Directors decided to appoint Mr Youssef Nasr as a member of the Board of Directors of the Bank. The appointment is subject to approval by the European Central Bank ("ECB") and will take effect when a Board position becomes available. Following approval from the ECB and appointment to the Board of Directors of the Bank, Mr. Nasr will be proposed for the position of the Chairman of the Bank

2) Considered as independent under the independence criteria listed in the CSE Corporate Governance Code. They are not independent under the independence criteria listed in the Directive on the Assessment of the Fitness and Probity of the Members of the Management Body and Managers of Authorised Credit Institutions of 2014 of the CBC, which differ from those in the CSE Corporate Governance Code

Glossary & Definitions

Forborne Exposures:

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

Non-Performing Exposures (NPEs) (EBA definition):

- (i) Material exposures that are over 90 days past due,
- (ii) The debtor is assessed as unlikely to pay its credit obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due,
- (iii) Exposures in respect of which a default is considered to have occurred in accordance with Article 178 of Regulation (EU) No 575/2013,
- (iv) Exposures of debtors against whom legal action has been taken by the Bank or exposures of bankrupt debtors,
- (v) Exposures that are found impaired as per the applicable accounting framework,
- (vi) Forborne exposures that were NPE at forbearance or became NPE after forbearance and which are re-forborne while under probation (the probation period for forborne exposures begins once the contract is considered as performing and lasts for two years minimum),
- (vii) Forborne exposures reclassified from NPE status i.e. that were NPE at forbearance or became NPE after forbearance and present more than 30 days past due while under probation
- (viii) Further to the above the all-embracing criteria apply as follows: (a) for debtors classified as retail debtors as per the Regulation (EU) No 575/2013, when the Bank has on-balance sheet exposures to a debtor that are material and are past due by more than 90 days the gross carrying amount of which represents more than 20% of the gross carrying amount of all on-balance sheet exposures to that debtor, all on and off-balance sheet exposures to that debtor shall be considered as non-performing and (b) for debtors classified as non-retail debtors as per the Regulation (EU) No 575/2013, when the Bank has any on-balance sheet exposures to a debtor that are non-performing (if the exposure is non-performing due to over 90 days past due it must pass the materiality thresholds), all on and off-balance sheet exposures to that debtor shall be considered as NPE. Else, only exposures that are non-performing will be classified as such.

NPEs ratio: gross non-performing exposures (EBA definition) divided by gross loans

NPE provision coverage ratio: accumulated impairment losses divided by gross non-performing exposures

90dpd: an exposure is classified as "past-due" when any amount of principal, interest or fee has not been paid at the date it was due. Over 90 days past due refers to exposures for which more than 90 days passed since the day that any amount of principal, interest or fee was due and was not paid for a single exposure.

Glossary & Definitions

AT1: additional tier 1 capital

CBC: Central Bank of Cyprus

CCB: capital conservation buffer

CET 1: common equity tier 1 capital

Cost to income ratio: total expenses over total net income

Cost of risk ratio: impairment losses on the value of loans and advances and REOs divided by gross loans at the end of the period, annualized

DTA: deferred tax asset

D2A: debt to asset arrangement between the Bank and the borrower

Earnings/(loss) per share: profit/(loss) divided by the number of shares issued

EBA: European Banking Authority

ECB: European Central Bank

Leverage ratio: capital measure divided by the total on- and off- balance sheet items (Tier 1/total exposure measure)

Loans to deposits ratio: loans and advances to customers minus accumulated impairment losses divided by customer deposits and other customer accounts

NII: Net Interest Income

Net Interest Margin ratio (NIM): Net interest income divided by interest earning assets, annualized

Net tangible book value per share: equity attributable to shareholders of the parent company less intangible assets divided by the number of issued shares

OCR: overall capital requirement

O-SII: Other Systemically important institution

q-o-q: quarter on quarter

Return on Equity: profit attributable to shareholders of the parent company (annualized) divided by average equity attributable to shareholders of the parent company

REOs: Real Estate Owned

RWAs: Risk Weighted Assets

SREP: Supervisory Review and Evaluation Process

VEES: Voluntary Early Exit Scheme

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