HELLENIC BANK

Hellenic Bank Group

Annual Financial Report

For the year ended 31 December 2019

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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 and is domiciled 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 2019 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 2019 the branch network included 77 branches, 42 cash offices and 2 mobile branches in Cyprus as well as representative offices in South Africa, Ukraine and Russia.

The Bank announced that on 23 December 2019 it completed the acquisition of the entire participation interest of MetLife Services Cyprus Limited, equal to 27,5%, in the share capital of Hellenic Alico Life Insurance Company Limited. Following the completion of the acquisition, the Bank owns 100% of the share capital of Hellenic Alico Life Insurance Company Limited.

For further details and recent developments on the Group's structure refer to Note 23 of the Financial Statements.

IMPLICATIONS OF THE COVID-19 OUTBREAK

In light of the spread of COVID-19 across the globe, a variety of measures have been, and continue to be, taken by European governments to prevent the transmission of the virus along with economic support and relief measures aimed at addressing the economic consequences of the outbreak on individuals, households and businesses. Such relief measures include, but are not limited to, moratoria on repayment of loans, overdraft facilities and mortgages, loan guarantees as well as other forms of business support targeted at individual firms or specific industries (e.g. for liquidity purposes).

Notwithstanding the support measures taken, the Bank expects its financial performance for the 2020 financial year to be affected by COVID-19-driven economic slowdown. Accordingly, travel and economic activity restrictions imposed both domestically and internationally to contain the spreading of the coronavirus, will have a negative impact on the Cypriot economy. The Bank is taking actions in order to minimise the negative direct impact of COVID-19 moratoria (instalments deferral). It is acknowledged though that the situation has consequential impacts on the credit quality of the loans portfolio but given the high degree of uncertainty in relation to the longevity and severity of the economic slowdown, it may take time before the Bank is in a position to quantify and fully capture the credit risk impact.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

The Bank will continue to monitor the situation, taking all necessary measures to mitigate the impact on its operations and financial performance. Furthermore, once there is more clarity on the impact on its financial performance, the Bank will proceed with further updates.

For further details and recent developments on the issue refer to Note 50 of the Financial Statements.

MANAGEMENT REPORT

FINANCIAL RESULTS[1]

The Group's profit before taxation for the year ended 31 December 2019 amounted to €96,4 million (Bank: profit €93,7 million).

On 3 September 2018, the Bank completed the acquisition of certain assets and liabilities of the Cyprus Cooperative Bank Ltd (CCB), referred to as Cooperative Asset Management Company Ltd (the ex CCB) with effect from 1 September 2018 (the "Acquisition"). Additional information on the acquired assets and liabilities is presented in Note 48.

Following the Acquisition, the financial results of the Group and the Bank for the year ended 31 December 2019 are not comparable with previous financial results.

For the year ended 31 December 2018 the Group reported a profit before taxation of €319,5 million (Bank: profit €316,6 million) and included the negative goodwill of €297,9 million as a result of the Acquisition. The negative goodwill represented the difference between the consideration paid of €74,2 million cash and the net fair value of the identifiable assets acquired and the liabilities assumed.

Profit attributable to the Bank's shareholders for the year ended 31 December 2019 amounted to €107,7 million compared to a profit of €319,3 million for the year ended 31 December 2018.

Income Statement Analysis

Net interest income
The Group's net interest income for the year ended 31 December 2019 was €301,3 million (Bank's €301,2 million), up by 64% (Bank: increase of 64%) compared to €184,2 million (Bank: €184,1 million) for the year ended 31 December 2018. The main factor that contributed to the increase of net interest income was the impact of the Acquisition on interest income from loans and advances to customers and on interest income from debt securities.

The Group's net interest margin for the year ended 31 December 2019 amounted to 192 bps (31 December 2018: 196 bps).

Non-interest income
The Group's total non-interest income for the year ended 31 December 2019 amounted to €103,4 million (Bank: €94,2 million), recording a decrease of 2% (Bank: decrease 2%) compared to €105,0 million for the year ended 31 December 2018 (Bank: €95,7 million) mainly due the drop in net gains on disposal and revaluation of foreign currencies and financial instruments, which was partly offset by the increases in net fee and commission income and other income.

The Group's net gains on disposal and revaluation of foreign currencies and financial instruments for the year ended 31 December 2019 amounted to €10,7 million (Bank: €10,0 million) and recorded a decrease of 61% (Bank: 63%) compared to €27,1 million (Bank: €27,3 million) for the year ended 31 December 2018, with the decrease being mainly due to the gain of €18,3 million from the disposal of Cyprus Government Bonds (CGBs) during the first quarter of 2018.

Other income for the year ended 31 December 2019 amounted to €35,4 million (Bank: €21,1 million) and increased by 21% (Bank: 29%) compared to €29,1 million in 2018 (Bank: €16,4 million) mainly due to the increase in the insurance operations as a result of the Acquisition.

Net fee and commission income for the year ended 31 December 2019 was €57,3 million (Bank: €63,1 million) and recorded an increase of 18% (Bank: increase by 21%), compared to €48,8 million (Bank: €52,0 million) for the year ended 31 December 2018 with the increase being mainly due to the impact of the Acquisition.

1. The Group's Financial Statements and the Group's Financial Results presentation for the year ended 31 December 2019 are available on the Group's website www.hellenicbank.com (Investor Relations). The Financial Statements are also available at the Bank's registered office.

Expenses

The Group's total expenses for the year ended 31 December 2019 amounted to €273,0 million (Bank: €264,7 million) and increased by 36% (Bank: 37%) compared to €201,3 million (Bank: €193,5 million) for the year ended 31 December 2018, mainly as a result of the Acquisition and the integration (refer to Note 48). The total integration cost was €64,9 million within the estimated level of €71,1 million. Approximately €31 million was expensed in the Income statement while an amount of around €34 million was capitalised.

Staff costs

Group's staff costs for the year ended 31 December 2019 amounted to €126,7 million and compared to €87,6 million the year ended 31 December 2018, recorded an increase of 45% and accounted for 46% (2018: 43%) of the Group's total expenses. The Bank's staff costs for the year ended 31 December 2019 amounted to €121,5 million and compared to €82,5 million the year ended 31 December 2018, recorded an increase of 47% and accounted for 46% (2018: 43%) of the Bank's total expenses. The main driver of the said increase was the impact of the Acquisition. Analysis of staff costs is disclosed in Note 12 of the Financial Statements.

Depreciation and amortisation

The Group's total depreciation and amortisation for the year ended 31 December 2019 amounted to €22,2 million (Bank: €21,9 million) and recorded an increase of 98% (Bank: 99%) compared to €11,2 million for the year ended 31 December 2018 (Bank: €11,0 million). The main drivers of the increase were the impact of the Acquisition and the impact of IFRS 16 initially applied at 1 January 2019. As a result of the IFRS 16 application, the Group and the Bank has recognised depreciation of the right-of-use asset of €4,8 million and interest costs on the corresponding lease liability of €0,3 million instead of operating lease expense for 2019.

Administrative and other expenses[2]

The Group's total administrative and other expenses for the year ended 31 December 2019 amounted to €124,2 million and compared to €102,5 million for the year ended 31 December 2018, were up by 21%. The Bank's total administrative and other expenses for the year ended 31 December 2019 amounted to €121,3 million and compared to €100,0 million for the year ended 31 December 2018, were up by 21% reflecting the impact of the Acquisition and the integration.

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

The Group's cost to income ratio for the year ended 31 December 2019 was 67,5% compared to 69,6%[2] for the year ended 31 December 2018. The Bank's cost to income ratio for the year ended 31 December 2019 was 66,9% in comparison to 69,2%[2] for the year ended 31 December 2018.

Impairment losses on financial instruments and non financial assets

The Group's impairment losses on financial instruments and non financial assets for the year ended 31 December 2019 amounted to a charge of €36,7 million (Bank: €37,0 million) compared to a charge of €68,5 million (Bank: €67,6 million) for the year ended 31 December 2018, recording a decrease of 46% (Bank: 45%). The charge for the year reflected further balance sheet de-risking incorporating the possibility of recovery through a sale of NPE portfolio. The decrease compared to last year was mainly due to the high impairment losses booked in 2018 as a result of the Acquisition, that under IFRS 9, attracted loss allowance at the first reporting date after it was recognised.

The Group's and the Bank's cost of risk for the year ended 31 December 2019 amounted to 0,4% (31 December 2018: 0,8%).

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

2. Comparative information regarding Administrative and other expenses and Impairment losses on financial instruments and non financial assets, are restated to conform with changes in the presentation of the current year. More specifically Impairment losses on non financial assets previously included under administrative and other expenses are now reclassified under Impairment losses on non financial assets.

MANAGEMENT REPORT

Share of results in associate net of taxation

The share of results in associate net of taxation, for the year ended 31 December 2019 amounted to €1,5 million profit and compared to €2,2 million profit for the year ended 31 December 2018, recorded a decrease of 30%. The decrease in the share of results was mainly due to the declining balance of the original portfolio under management and the renegotiation of lower management fees with the Bank for loans falling under the original perimeter transferred. During 2019, an additional loan portfolio was assigned to APS Debt Servicing Cyprus Ltd (APS Cyprus) for management as a result of the Acquisition.

Taxation

The Group's taxation for the year ended 31 December 2019 amounted to a tax credit of €12,0 million (2018: €0,6 million tax credit) and included an amount of €0,7 million corporation tax charge and €12,7 million deferred tax (credit). The Bank's taxation for the year ended 31 December 2019 amounted to a tax credit of €12,7 million (2018: €1,3 million tax credit) and included an amount of €12,7 million deferred tax (credit). The deferred tax credit was mainly the result from a credit of €12,0 million from the movement of the temporary difference arising on the negative goodwill.

Statement of Financial Position Analysis

As at 31 December 2019, the Group's and the Bank's total assets amounted to €16,3 billion and €16,2 billion respectively and were slightly increased compared to €16,1 billion as at 31 December 2018, mainly due to the increase in investment assets.

Deposits

The Group's and the Bank's customer deposits amounted to €14,6 billion as at 31 December 2019 (31 December 2018: €14,7 billion). They comprised of €13,6 billion deposits in Euro (31 December 2018: €13,7 billion) and €1,0 billion deposits in foreign currencies (31 December 2018: €1,0 billion), mostly in US Dollars. The Bank's deposits market share[3] as at 31 December 2019 stood at 30,1% (31 December 2018: 30,9%).

Loans

The Group's and the Bank's gross loans as at 31 December 2019 amounted to €7.244 million, down by 5% compared to €7.636 million as at 31 December 2018. The performing loan portfolio was down by 4% while the non-performing loan portfolio decreased by 8% compared to 31 December 2018. During 2019 exposures of €216,8 million were written off (31 December 2018: €149,0 million). The Bank's loan market share[3] as at 31 December 2019 increased to 21,4% (31 December 2018: 19,5%).

The net loans to deposits ratio stood at 40,9% as at 31 December 2019 (31 December 2018: 42,7%).

Total new lending approved during 2019 reached €812,3 million (2018: €594,4 million). The Bank continued providing lending to creditworthy businesses and households while examining other growth opportunities.

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

Loan Portfolio Quality

During 2019, as part of the Bank's deleveraging strategy and following the successful completion of the disposal of a non-performing loan portfolio in June 2018 and the Acquisition in September 2018, the Bank has embarked on a preparation phase to review the feasibility of different NPE reduction structures with the aim of identifying the option that best meets the Bank's strategic objectives. The preparation phase involved the definition of the NPE portfolio, evaluation of real estate collaterals, data remediation and enhancement of data tapes, borrower information memorandums, legal due diligence and transaction structuring options. For the purposes of completing the workstreams outlined above and concluding on the best possible structure, the Bank engaged international advisors, and has been engaged in high level discussions through signing confidentiality agreements with various third parties that may be interested in pursuing a possible collaboration with the Bank. The Bank is committed and continues to work with its advisors towards the disposal of an NPEs portfolio. Due to recent developments regarding the coronavirus (COVID-19) outbreak and the impact on the current market conditions, the completion of an NPE disposal process may deviate from the Bank's original time plan.

The Group's and the Bank's NPEs[4] amounted to €2.276 million as at 31 December 2019 and compared to €2.474 million as at 31 December 2018, recorded a decrease of 8%. A significant part of the NPEs reduction, was due to cash collections and cures representing higher quality deleveraging. Terminated loans included in NPEs amounted to €1.435 million as at 31 December 2019. Gross loans with forbearance measures as at 31 December 2019 amounted to €1.225 million (31 December 2018: €1.612 million).

The Group's and the Bank's NPEs to gross loans ratio as at 31 December 2019 was reduced to 31,4% compared to 32,4% as at 31 December 2018. The NPEs to gross loans ratio as at 31 December 2019 excluding the NPEs covered by the APS agreement was 25,0% (31 December 2018: 26,5%).

The Group's and the Bank's total accumulated impairment losses amounted to €1.265 million as at 31 December 2019 (31 December 2018: €1.352 million) and represented 17,5% of the total gross loans (31 December 2018: 17,7%). Total accumulated impairment losses over gross loans excluding the loans covered by the APS was 23,2% (31 December 2018: 24,2%).

The Group's and the Bank's NPEs provision coverage ratio stood at 55,6% as at 31 December 2019 (31 December 2018: 54,6%), while excluding the NPEs covered by the APS agreement is adjusted to 67,3% (31 December 2018: 65,5%). Taking into account tangible collaterals (based on open market values - capped at client exposure), the net NPEs collateral coverage ratio stood at 125,3% as at 31 December 2019 (31 December 2018: 132,4%), while excluding the NPEs covered by the APS and the corresponding tangible collateral and provisions of the NPEs covered by the APS, the ratio is adjusted to 142,9% (31 December 2018: 150,5%).

Investment assets

The Group's and the Bank's carrying value of investment assets amounted to €9,7 billion as at 31 December 2019 (31 December 2018: €9,3 billion) and represented 59,5% of the total assets (31 December 2018: 57,5%). Investment assets comprise of cash and balances with Central Banks, placements with other banks, investments in debt securities, investments in shares and other securities and collective investment units and investment in associate as well as investments in subsidiary companies for the Bank. Total investment assets increased by 5% compared to 31 December 2018, mostly due to the increase in cash and placements with other banks and Central Banks.

The Bank carries out its activities involving foreign currency through correspondence banks for the respective currencies. For the major currencies, the Bank maintains four bank relationships for USD, including two which are full service relationships, three bank relationships for GBP, four bank relationships for RUB, and two bank relationships for CHF.

4. Gross carrying amount, including the contractual interest on impaired loans. The acquired NPEs were initially recognised at fair value and are subsequently measured at amortised cost.

The Group's cash and placements with other banks and Central Banks amounted to €5,4 billion (Bank: €5,3 billion) as at 31 December 2019 (31 December 2018: €4,7 billion the Group and the Bank) and recorded an increase of 14%. The main drivers of the increase were the net cash inflow from the maturity of investments as well as the net cash inflow from loan repayments. Most foreign currency placements were with P-1 rated banks[5].

The Group's and the Bank's investments in debt securities amounted to €4,3 billion as at 31 December 2019 (31 December 2018: €4,5 billion) and represented 26,4% of total assets (31 December 2018: 28,1%). The Group's and the Bank's investments in debt securities comprised mainly of CGBs.

The CGBs[6] held by the Group and the Bank at 31 December 2019 amounted to €2.987 million and compared to €4.136 million as at 31 December 2018, were down by 28% mainly as a result of the CGBs that reached maturity during the fourth quarter of 2019. Out of the total CGBs held by the Group, €874 million will mature within a period of less than 1 year, €1.955 million within 1 and 5 years and the remaining €158 million will mature within 5 and 10 years.

SHARE CAPITAL

At 31 December 2019, 412.805.230 fully paid ordinary shares were in issue, with a nominal value of €0,50 each (31 December 2018: 198.474.712 fully paid shares with a nominal value €0,50 each).

Details on the development of the share capital of the Bank are disclosed in Note 34 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 above certain thresholds and the requirements of the EU Market Abuse Regulation.

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

Increase of share capital
On 15 March 2019 the Bank announced the successful completion of the share capital increase. The raising of €150 million of shareholders' equity consists of €100 million through an underwritten Rights Issue and €50 million through a Private Placement. The new ordinary shares arising from the share capital increase, totaling 214.330.364, were listed on the CSE on 28 March 2019. In August 2019, 154 new ordinary shares with nominal value of €0,50 were issued as a result of a CCS2 voluntary conversion and their trading commenced on 4 September 2019.

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

LOAN CAPITAL

During the third quarter of 2019 the Bank announced that during the CCS 2 conversion period (15-31 July 2019), it received one Voluntary Conversion Application for the conversion of 1.000 CCS 2 of nominal value of €1,00 each into ordinary shares of nominal value of €0,50 each of the Bank at the minimum conversion price of €6,50. Loan capital details are disclosed in Note 33 of the Financial Statements.

CAPITAL BASE AND ADEQUACY

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

5. Prime-1 short term rating by Moody's.
6. Republic of Cyprus is currently being rated as Ba2 by Moody's, BBB- by Fitch, BBB- by S&P.

MANAGEMENT REPORT

Under Pillar I (transitional basis), the Capital Adequacy Ratio of the Group as at 31 December 2019 was 22,56% (Bank: 22,48%), the Tier 1 Ratio was 22,56% (Bank: 22,48%) and the Common Equity Tier 1 Ratio (CET 1) was 19,98% (Bank: 19,91%).

The Group's risk weighted assets as at 31 December 2019 amounted to €5.039 million (Bank: €5.043 million).

According to the Regulation No. 2015/62 of the European Parliament and Council dated 10 October 2014, as at 31 December 2019 the Leverage Ratio for the Group was 6,87% (Bank: 6,85%).

Details of the capital management of the Group are disclosed in Note 49 of the Financial Statements.

ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARD

IFRS 16 "Leases" had an effective date for annual periods beginning on or after 1 January 2019 and sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 for lessees eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model.

Details of the IFRS 16 requirements and impact are disclosed in Note 3 and Note 5 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 2019 at the shareholders' Annual General Meeting. No dividend was paid or proposed for the year ended 31 December 2018.

INTEGRATION UPDATE

After the Acquisition, a full scale plan for the integration of the acquired Business was launched and completed with the assistance of international specialised advisors. The integration planning and governance entailed the design of a detailed IT integration plan, the planning of systems and data migration, the set up of a fully Operational Integration Governance involving specialised work streams such as Integration Management Office, IT Steering Committee, Executive Integration Steering Committee and Board Integration Committee as well as the set up of Post Go Live Support and Incident Reporting Governance for incidents that might have arisen on Day 1.

During the execution phase, infrastructure was expanded and tested to ensure that systems perform well given the anticipated increased volume and four Go Live Rehearsals and three Full Dress Rehearsals were completed. The successful migration of customer data, account and transaction data was completed by 15 September 2019 and the electronic channels opened on the same afternoon. The integration was completed on 16 September 2019 where the branches opened to the public with no major problems. All customers are now been served from any branch.

STRATEGIC TARGETS AND OUTLOOK

The Bank is committed to being a strong bank meeting the expectations of its shareholders, employees, clients and society.

Whilst the Bank expects the coronavirus pandemic to have a temporary but significant negative economic impact, the Bank remains in a robust position and will focus on de-risking and protecting its balance sheet through the pandemic period whilst in parallel continuing strengthening and improving its market position to maximise post pandemic growth opportunities.

MANAGEMENT REPORT

The Bank's medium-term strategy focuses on 1) growth through high quality new lending with strengthening of customer relationships and 2) deleveraging its NPE portfolio.

The Bank intends to continue its role in supporting the local economy while protecting shareholder value through prudent policies consistent with the Bank's Risk Appetite. The Bank also continues repositioning its international banking strategy including exploring further international lending and investment opportunities whilst cognisant of changing regulatory environment including anti-money laundering issues. The Bank's strategy leverages advancements in technology, analytics and enhancement of customer service, as well as streamlining of processes.

Through the creation of the first debt servicing platform in the Cypriot market, the Bank is able to effectively tackle its NPEs in an accelerated way and with higher recoveries, leveraging on the know-how, proven expertise and technical experience of APS Cyprus. Moreover, the Bank remains focused to accelerate the de-risking of its non-performing exposures through portfolio disposals.

Consistent with its growth strategy, the Bank completed the Acquisition of certain assets and liabilities of CCB in September 2018 and implemented the integration of the acquired business in September 2019. The Acquisition improved the financial profile of the Bank and strengthened its Cyprus banking franchise with an enlarged and diversified customer base. The Acquisition complemented the Bank's existing business model, diversifying its loan portfolio with a major retail presence in addition to its previous business focus. The Bank has achieved significant synergies from the Acquisition, reflecting the complementary characteristics of the combined businesses.

The Bank maintains a strong liquidity position allowing, as the economy recovers post coronavirus, development of further lending programmes across Cyprus and selected international lending and investment opportunities. The Bank aims to continue its pivotal role in the recovery of the economy supporting creditworthy Cypriot businesses and households with a comprehensive range of quality banking services. The focus of domestic lending will continue towards 1) businesses increasing Cyprus' competitiveness and productivity including retail and commercial activities, manufacturing and tourism; 2) loans to private sector including house purchase mortgages. Through the pandemic period Hellenic Bank stands ready to support its clients, households and businesses affected by the coronavirus.

The Bank continuously monitors Cypriot, European and Global economic environments, assessing the evolving situation, whilst continuing the implementation of its strategy. The operating environment remains challenging and the Bank will remain vigilant of developments and to turn these challenges into opportunities.

RISK MANAGEMENT

The Group is exposed to a variety of risks, the most important of which are described and analysed in Note 49 of the Financial Statements. The management and monitoring of risks is centralised under a uniform management, which covers the entire range of the Group's operations.

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

Details on agreements with members of the Board of Directors are described in the 2019 Remuneration Policy Report.

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

Details of restrictions in voting rights and special control rights in relation to the shares of the Bank are set out in Note 34.

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 prior 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 40 of the Financial Statements.

ENVIRONMENTAL ISSUES

The Bank, in the context of its wider environmental culture and actions, continuous to play a pioneering role in the field of energy management. It has established an Energy Management Policy seven years ago, through which it has managed to reduce (2019 v. 2012) its energy consumption by almost 28%, as a result its CO2 emissions by over 20% and its electricity cost by almost 47%.

Since 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 such certification. The ISO 50001 Energy Management System is implemented within Hellenic Bank and its success depends to a great extent on the awareness, contribution and involvement of all staff. It is applicable to all services and related buildings, providing a systematic approach towards the continuous improvement of energy performance, including energy efficiency, use and consumption. Such program will be further extended to gradually incorporate additional premises as a result of the Acquisition.

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 the Group to stand out.

In addition, the Bank, in cooperation with the environmental organization Cymepa has achieved certification of a number of its buildings with Green Offices (29 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.

Furthermore, the Bank, will start working towards identifying relevant actions on climate change through the establishment of a working group.

EMPLOYEE MATTERS

The main challenges of 2019 were that of the smooth integration of the ex-CCB employees and the satisfaction of specific specialised recruitment needs to support the main strategic priorities of the Bank (e.g. Digital, Data Management, Technology) through internal transfers and external new hires.

Following the completion of the integration process that related to ex-CCB's operations, systems and staff, as well as the return of staff from APS Cyprus, a significant number of departmental re-organisations was implemented during 2019. These re-organisational changes aimed to achieve synergies and ensure the smooth functioning of the divisions, as well as the achievement of the Bank's strategic plan.

During 2019 the Bank introduced a revised Annual Pay Increase System, aiming to create a modern work environment, utilising HR practices directly linked to a culture of meritocracy. The tools used for the Annual Pay Increases System and the salary market trends, were provided by independent consultants.

With regards to training, emphasis was given to the improvement of knowledge and skills on a wide range of subjects. In the area of compliance, the e-learning method was applied, while with the operation of the HB Skill Development Lab and the creation of the Credit Academy, a number of specialised programs were implemented.

CORPORATE SOCIAL RESPONSIBILITY REPORT (CSR)

In line with the relevant legislation, the Bank is in the process of preparing a CSR report, which as per current legislation is required to be submitted to the Registrar of Companies by 30 June 2020, subject to any regulatory decisions for a delay due to the coronavirus pandemic.

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 control 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 the Financial Statements and of the relevant disclosures which are included in the periodic reporting provided by the Group based on Part II of the Transparency Requirements Law (Securities admitted to trading on a Regulated Market) Laws of 2007 up to 2017.

SYSTEM OF INTERNAL CONTROL

The Board of Directors has ensured that the Bank maintained an effective System of Internal Control in 2019. The adequacy and effectiveness of the System of Internal Control are reviewed by the Board at least annually. The review covers all systems of internal control, including financial and operational systems, as well as compliance systems and systems for the management of risks that threaten the attainment of the Group's objectives.

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

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

EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are disclosed in Note 50 of the Financial Statements.

BOARD OF DIRECTORS

The Members of the Board of Directors as at 31 December 2019 were the following:

Dr Evripides A. Polykarpou	Non-Executive Chairman
Andrew Charles Wynn	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
Andreas Christofides	Non-Executive Member of the Board
Stephen John Albutt	Non-Executive Member of the Board
Demetrios Efstathiou	Non-Executive Member of the Board
Kristofer Richard Kraus	Non-Executive Member of the Board
Marios Maratheftis	Non-Executive Member of the Board
Marco Comastri	Non-Executive Member of the Board
Ioannis A. Matsis	Executive Member of the Board
Lars Kramer	Executive Member of the Board

During 2019 and until the date of this Report the changes in the Board of Directors of the Bank were as follows:

Mr Marinos S. Yannopoulos submitted his resignation as Vice-Chairman and Member of the Board of Directors of the Bank, for personal reasons, with effect from 30 May 2019.

Mr Kristofer Richard Kraus was appointed as Non-Independent Non-Executive Member of the Board of Directors of the Bank, with effect from 19 June 2019.

Mr Marios Maratheftis was elected as Non-Independent Non-Executive Member of the Board of Directors and Mr Marco Comastri was elected as Independent Non-Executive Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 28 August 2019.

Mr Christos Themistocleous was appointed as Independent Non-Executive Member of the Board of Directors of the Bank with effect from 6 March 2020 following consent by the European Central Bank / Central Bank of Cyprus and having been elected at the Annual General Meeting of the Shareholders held on 28 August 2019.

At the Board meeting that followed the Annual General Meeting, Dr. Evripides A. Polykarpou was elected Chairman of the Board of Directors of the Bank, Mr Andrew Charles Wynn was elected Vice Chairman of the Board of Directors of the Bank and Mr Stephen John Albutt was elected Senior Independent Director.

MANAGEMENT REPORT

Messrs Youssef A. Nasr, Christodoulos A. Hadjistavris and Andreas Christofides did not submit their candidacy for re-election as Members of the Board of Directors at the Annual General Meeting of the Shareholders held on 28 August 2019, for personal reasons. On the same day, Mr A. Christofides was appointed as Interim Director by the Board of Directors of the Bank, in accordance with Regulation 110 of the Bank's Articles of Association. On 6 March 2020, Mr A. Christofides automatically vacated the office of the Interim Director, upon the appointment of Mr Christos Themistocleous as Independent Non-Executive Director.

Mr Zion Bahloul was also elected at the Annual General Meeting of the Shareholders held on 28 August 2019 as Independent Non-Executive Member of the Board of Directors. The appointment of Mr Z. Bahloul to the Board of Directors is subject to consent by the European Central Bank/Central Bank of Cyprus.

At the said Annual General Meeting, Mr Demetrios Efstathiou was not re-elected as Member of the Board of Directors and on the same day, he was appointed as Interim Director by the Board of Directors of the Bank, in accordance with Regulation 110 of the Bank's Articles of Association. Upon the appointment of Mr Zion Bahloul as Independent Non-Executive Director, Mr D. Efstathiou will automatically vacate the office of the Interim Director.

At the Extraordinary General Meeting of the Shareholders of the Bank, which was held on 26 June 2019, the amendments to the relevant Regulations of the Bank's Articles of Association were unanimously approved so that, at each Annual General Meeting of the Bank, all the Directors (irrespective of when such person was appointed or elected or re-elected as a Director of the Bank) shall retire from office and shall, if willing to act, be eligible for re-election. Hence, the retiring Directors, who are eligible and will offer themselves for re-election at the Annual General Meeting of the Shareholders on 16 June 2020, are the following: Dr Evripides A. Polykarpou, Messrs Andrew Charles Wynn, Irena A. Georgiadou, Marianna Pantelidou Neophytou, David Whalen Bonanno, Stephen John Albutt, Kristofer Richard Kraus, Marios Maratheftis, Marco Comastri, Christos Themistocleous, Ioannis A. Matsis and Lars Kramer.

Reference to Directors' emoluments, fees and compensation is made in Note 39 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 38 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.

Pursuant to the regulatory requirement for the mandatory rotation of its current External Auditors, the Bank conducted a competitive tender process to appoint new External Auditors for the Company and its subsidiaries. The relevant tender was overseen by the Audit Committee of the Board of Directors of the Bank as well as by the respective Audit Committees of the Board of Directors of its subsidiaries, Pancyprian Insurance Limited and Hellenic Life Insurance Company Limited.

Following this competitive tender process, the Board of Directors of the Bank and of each of its subsidiaries have approved the relevant recommendation for the appointment of Ernst & Young Cyprus Ltd as the External Auditors of the Bank and its subsidiaries for the audit of the Financial Year 2021. This decision remains subject to approval from the Regulatory Authorities and from the shareholders of the Bank and its subsidiaries.

On behalf of the Board of Directors,

Dr Evripides A. Polykarpou
Chairman

Nicosia, 18 May 2020

KPMG Limited
Chartered Accountants
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P.O. Box 21121, 1502 Nicosia, Cyprus
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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 22 to 203 and comprise the consolidated statement of financial position of the Group and the statement of financial position of the Bank as at 31 December 2019 and the consolidated income statement, statements of comprehensive income, changes in equity and cash flows of the Group, and income statement and statements of 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 2019, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS-EU") and the requirements of the Cyprus Companies Law, Cap. 113, as amended from time to time (the "Companies Law, Cap.113").

Basis for opinion

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

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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

Impairment of loans and advances to customers	
Refer to note 19 to the financial statements	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2019 the Bank reported total gross loans and advances to customers of €7.244.190 thousands and €1.265.042 thousands of expected credit losses (ECL). The estimation of expected credit losses (ECL) on loans and advances to customers, involves significant judgement and estimates. The key areas where we identified higher levels of judgement and assumptions, and therefore placed greater level of audit focus in the estimation of ECL allowance are: ▪ *Significant increase in credit risk (SICR):* the criteria selected to identify a significant increase in credit risk is a key area of judgement in the ECL calculation since the application of these criteria will determine whether a 12 month or a lifetime ECL allowance is recognised. ▪ *ECL models:* the models used in estimating ECL are inherently judgmental and involve determining probability of default (PD), loss given default (LGD) and exposure at default (EAD). ▪ *Macroeconomic scenarios to the ECL estimate*: IFRS 9 requires the Bank to incorporate forward-looking information into estimating ECL. This involves judgement in determining the macroeconomic scenarios used and the weightings applied to them. As a result of these matters, we determined that impairment of loans and advances to customers is a key audit matter.	Our audit procedures in this area included, among others: ▪ We performed end to end process walkthroughs to identify the key systems, applications and controls used in the ECL processes. We tested the relevant general IT and applications controls over key systems used in the ECL process. ▪ We tested the design, implementation and operating effectiveness of the key controls over the completeness and accuracy of key data inputs into the IFRS 9 impairment models and individual provisioning tools. ▪ We evaluated the management review process and relevant controls over the ECL calculations, evaluation and authorisation of the impairment loss allowance. ▪ We assessed and challenged the appropriateness of the Bank's impairment methodologies (including the SICR criteria used), key technical decisions, judgements, assumptions and the framework designed and implemented in determining the ECL staging assessment and the ECL estimate. We involved our own financial risk modelling specialists to assist us in performing the above procedures. ▪ We evaluated the appropriateness of the Bank's methodology for determining the economic scenarios and key macroeconomic variables used and the probability weightings applied to them. We also assessed key macroeconomic variables used, which included reconciling a sample of economic variables to external sources. In addition, we assessed the overall reasonableness of the economic forecasts by comparing the Bank's past forecasts with actual results.

	In addition to the above, we performed the following procedures to evaluate the reasonableness of the ECL estimate: ▪ We assessed the work performed by the Bank's external experts to value the collaterals. We involved our own valuation specialists to assist us in assessing the appropriateness of the work performed by the Bank's external experts to value the collaterals held. ▪ *Testing the impairment loss allowance for individually significant loans:* Our testing involved: • performing credit assessments on a sample of loans to assess: - the appropriateness of the assigned staging of the loans; - the reasonableness of the timing and amount of estimated recoverable cash flows, including realisable value of collateral; and - the appropriateness of the resulting impairment loss allowance. ▪ *Testing the impairment loss allowance calculated on a collective assessment basis:* We involved our own financial risk modelling specialists to assist us in performing these procedures. Key aspects of our testing involved: • assessing whether the modelling assumptions used considered the relevant risks and were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the borrowers; • assessing the incorporation of the impact of key macroeconomic variables in the Probability of Default ("PD") and Loss Given Default Models ("LGD") parameters used in determining the ECL estimate; • independently assessing PD and LGD assumptions by reperforming the calculations of PD and LGD parameters used as inputs to ECL models using our own in-house challenger model; • assessing the application of the Bank's staging methodology; • assessing the reasonableness of the overall ECL estimate by recalculating the Bank's overall ECL estimate using our own challenger model. ▪ We assessed whether the disclosures in the

	financial statements appropriately and adequately reflect the Bank's exposure to credit risk and address the uncertainty which exists in determining expected credit losses.

Integration of the perimeter acquired from the Cooperative Asset Management Company into the Bank's banking system	
Refer to note 48.9 to the financial statements	
The key audit matter	**How the matter was addressed in our audit**
Integration process is broadly defined as bringing together data from two completely different systems into one system and ensuring that the surviving system is operating as it is intended. The Bank, during September 2019, completed the migration of the perimeter acquired from Cooperative Asset Management Company ("CAMC") into the Bank's banking system. As part of this process, the Bank on the basis of a detailed Integration Masterplan, it had organised a monitoring governance structure consisting of a Board Integration committee, IT Steering Committee, Executive Integration Steering Committee and other subcommittees which were under the direct supervision of the Integration Management Office. The Bank had appointed a Chief Integration Officer supported by Integration Management Officers, whilst it had engaged reputable advisors with international experience in advising organizations engaging into complex system integration exercises. Failure to successfully complete the integration process, could have resulted in transferring incomplete and inaccurate data in relation to loans and advances to customers, customer deposits and other customer accounts, cash and balances with Central Banks, placements with other banks and deposits by banks, from CAMC system into the Bank's banking system. In addition, such failure could have caused severe operational and reputational repercussions. Given the complexity and magnitude of the integration process and the risks associated to that exercise together with the negative impact that it could have caused to the Bank if it had failed, we determined this to be a key audit matter.	Our audit procedures in this area included, among others: ▪ We evaluated and documented the process activities followed by the Bank from the planning, setting up of the Integration Governance, the key responsibilities and tasks set for the integration teams, the IT integration activities, checkpoints, the data migration process, the Dress Rehearsals of the Go Live weekend and the Go Live weekends. ▪ We performed inquiries and held meetings in relation to the integration process with the Chief Integration Officer, Integration Management Officers, the Bank's finance department and representatives of the Bank's Integration advisors. ▪ We attended the last Full Dress Rehearsal conducted during the weekend 24 and 25 August 2019. During that weekend, we observed the wrap up meeting of representatives of the Integration teams. We were able to observe the Bank's findings presented in relation to exceptions identified and how the integration teams categorised each exception by risk significance, as well as the timeframe set to resolve them. ▪ We attended the CIF weekend conducted during the weekend 7 and 8 September 2019. During that weekend, we observed the wrap up meeting of representatives of the Integration teams. We were able to observe the Bank's findings presented in relation to exceptions identified and how the Integration teams categorised each exception by risk significance, as well as the timeframe set to resolve them. ▪ We attended the Main Rollout weekend conducted during the weekend 14 and 15 September 2019. During that weekend, we observed all of the activities planned and

	performed by the Finance department. We also observed meeting of the representatives of the Integration teams on the 14 of September 2019 where all the Bank's findings were presented in relation to exceptions identified as well as the timeframe set to resolve it. The significance of the exceptions identified did not prohibit the Bank to proceed with the final execution of the data migration, which was approved by the appropriate Integration Committees, during Sunday 15 September 2019. Subsequent to the completion of the integration process by the Bank: ▪ We evaluated the completeness of the population of customers extracted from the CAMC system and used during the ETL (extraction, transform, load) process for transformation. ▪ We involved our Data & Analytics specialists to assist us in assessing the ETL process performed by the Bank during the CIF weekend by re-performing the same data transformation steps followed by the Bank on the customer information. ▪ We performed screen to screen testing for a sample of Customers, where we have compared field by field the information appearing in the CAMC system screens to the Bank's banking system screens. • We have reviewed the Bank's customer complaints log to identify any specific complaints relating to the outcome of the integration process.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Financial Report which includes the Management Report, the Corporate Governance Report and the Remuneration Policy Report for the year ended 31 December 2019 but does not include the consolidated and separate financial statements and our auditors' report thereon.

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

In connection with our audit of the 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 Management Report and the Corporate Governance Report, our report is presented in the *"Report on other regulatory and legal requirements"* section.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's and the Group's internal control.
- 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 of 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 those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Report on other regulatory and legal requirements

Other regulatory requirements

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

Date of appointment and period of engagement

We were first appointed auditors on 14 May 1975 by the General Meeting of the Bank's members to audit its financial statements for the period ended 31 December 1974. Our total uninterrupted period of engagement is 46 years having been renewed annually by resolution at the shareholders' Annual General Meetings.

Consistency of auditors' report to the additional report to the Audit Committee

We confirm that our audit opinion on the consolidated and separate financial statements expressed in this report is consistent with the additional report presented to the Audit Committee dated 11 May 2020.

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, based on the work undertaken in the course of our audit, the information included in the Corporate Governance Report in accordance with the requirements of subparagraphs (iv) and (v) of paragraph 2(a) of Article 151 of the Companies Law, Cap. 113, has been prepared in accordance with the requirements of the Companies Law, Cap, 113, and is consistent with the financial statements.
- In light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Corporate Governance Report in relation to the information disclosed for subparagraphs (iv) and (v) of the paragraph 2(a) of Article 151 of the Companies Law, Cap. 113. We have not identified any material misstatements in this respect.

- In our opinion, based on the work undertaken in the course of our audit, the Corporate Governance Report includes all information referred to in subparagraphs (i), (ii), (iii), (vi) and (vii) of paragraph 2(a) of Article 151 of the Companies Law, Cap.113.

Other Matter

This report, including the opinion, has been prepared for and only for the Bank's members as a body in accordance with Article 10(1) of the EU Regulation 537/2014 and Section 69 of Law L.53(I)/2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

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

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

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

18 May 2020

HELLENIC BANK GROUP
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
Interest income calculated using the effective interest method	6	**364.411**	235.009
Other interest income	6	**4.695**	5.916
Interest expense	7	**(67.851)**	(56.744)
Net interest income		**301.255**	184.181
Fee and commission income	8	**64.882**	55.289
Fee and commission expense	9	**(7.541)**	(6.525)
Net fee and commission income		**57.341**	48.764
Net gains on disposal and revaluation of foreign currencies and financial instruments	10	**10.664**	27.095
Other income	11	**35.389**	29.133
Total net income		**404.649**	289.173
Staff costs	12	**(126.687)**	(87.560)
Depreciation and amortisation	25, 26	**(22.156)**	(11.202)
Administrative and other expenses	13	**(124.159)**	(102.517)
Total expenses		**(273.002)**	(201.279)
Profit from ordinary operations before impairment losses on financial instruments and non financial assets		**131.647**	87.894
Impairment losses on financial instruments	14	**(23.246)**	(67.238)
Impairment losses on non financial assets	14	**(13.487)**	(1.216)
Profit before share of results of associate company and negative goodwill		**94.914**	19.440
Share of results of associate company net of taxation	24	**1.524**	2.171
Negative goodwill	48	**-**	297.866
Profit before taxation		**96.438**	319.477
Taxation	15	**11.990**	576
Profit for the year		**108.428**	320.053
Profit attributable to:			
Shareholders of the parent company		**107.681**	319.263
Non-controlling interests		**747**	790
Profit for the year		**108.428**	320.053
Basic and diluted earnings per share (€cent)	16	**29,52**	151,16

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
Profit for the year		**108.428**	320.053
Other comprehensive income/(expenses)			
Items that will not be reclassified in the income statement			
Taxation relating to components of other comprehensive income	35	**43**	73
Net revaluation surplus of investments in equity and other securities and collective investment units at fair value through other comprehensive income	35	**596**	337
		639	410
Items that are or may be reclassified subsequently in the income statement			
Net revaluation surplus/(deficit) of investments in debt securities measured at fair value through other comprehensive income	35	**4.195**	(6.195)
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income reclassified to income statement on disposal	35	**(93)**	(18.281)
		4.102	(24.476)
Other comprehensive income/(expenses) for the year net of taxation		**4.741**	(24.066)
Total comprehensive income for the year		**113.169**	295.987
Total comprehensive income for the year attributable to:			
Shareholders of the parent company		**112.422**	295.197
Non-controlling interests		**747**	790
		113.169	295.987

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Note	**2019 €'000**	2018 €'000
Assets			
Cash and balances with Central Banks	17,37	**4.961.971**	4.391.444
Placements with other banks	18,37	**395.258**	307.888
Loans and advances to customers	19	**5.979.148**	6.283.438
Debt securities	20	**4.299.932**	4.526.428
Equity and other securities and collective investment units	22	**42.378**	34.638
Investment in associate company	24	**7.826**	8.997
Property, plant and equipment	25	**181.602**	101.489
Intangible assets	26	**49.086**	46.546
Tax receivable		**601**	494
Deferred tax asset	27	**15.937**	16.326
Other assets	28	**373.812**	408.498
Total assets		**16.307.551**	16.126.186
Liabilities			
Deposits by banks	29	**173.990**	216.199
Customer deposits and other customer accounts	30	**14.601.654**	14.709.168
Tax payable		**5.225**	5.322
Deferred tax liability	31	**31.292**	44.457
Other liabilities	32	**289.023**	196.826
Loan capital	33	**129.666**	129.667
Total liabilities		**15.230.850**	15.301.639
Equity			
Share capital	34	**206.403**	99.237
Reserves		**870.288**	721.109
Equity attributable to shareholders of the parent company		**1.076.691**	820.346
Non-controlling interests		**10**	4.201
Total equity		**1.076.701**	824.547
Total liabilities and equity		**16.307.551**	16.126.186
Contingent liabilities and commitments	36	**1.382.403**	1.366.059

The Consolidated Financial Statements have been approved by the Board of Directors on 18 May 2020.

J. Matsis

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

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to shareholders of the parent company								
	Share capital (Note 34) €'000	Reduction of share capital reserve (Note 34) €'000	Share premium reserve (Note 34) €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 35) €'000	Total €'000	Non-controlling interests €'000	Total €'000
Balance 1 January 2019	99.237	260.269	515.609	(110.114)	33	55.312	**820.346**	4.201	**824.547**
Total comprehensive income for the year net of taxation									
Profit for the year	-	-	-	107.681	-	-	**107.681**	747	**108.428**
Other comprehensive income	-	-	-	-	-	4.741	**4.741**	-	**4.741**
Transfer of excess depreciation on revaluation surplus	-	-	-	410	-	(410)	**-**	-	**-**
	-	-	-	108.091	-	4.331	**112.422**	747	**113.169**
Transactions with shareholders									
Contributions and distributions									
Issue of shares	107.166	-	42.866	-	-	-	**150.032**	-	**150.032**
Expenses on increase of capital	-	-	(5.061)	-	-	-	**(5.061)**	-	**(5.061)**
Loss from acquisition of remaining stake in subsidiary from Non-controlling interest (NCI)	-	-	-	(1.047)	-	-	**(1.047)**	(4.938)	**(5.985)**
Defence on deemed dividend distribution	-	-	-	(1)	-	-	**(1)**	-	**(1)**
	107.166	-	37.805	(1.048)	-	-	**143.923**	(4.938)	**138.985**
Balance 31 December 2019	206.403	260.269	553.414	(3.071)	33	59.643	**1.076.691**	10	**1.076.701**

Loss from acquisition of remaining stake in subsidiary from NCI refers to the acquisition of the 27,5% stakeholding of the share capital of the Bank's subsidiary company Hellenic Alico Life Insurance Company Ltd (refer to Note 23).

Remaining Non-controlling interests relates to the Non-controlling interests in Pancyprian Insurance Ltd (refer to Note 23).

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Attributable to shareholders of the parent company								
	Share capital (Note 34) €'000	**Reduction of share capital reserve (Note 34) €'000**	**Share premium reserve (Note 34) €'000**	**Revenue reserve €'000**	**Translation reserve €'000**	**Revaluation reserves (Note 35) €'000**	**Total €'000**	**Non-controlling interests €'000**	**Total €'000**
Balance 1 January 2018	99.237	260.269	515.609	(394.579)	33	78.316	**558.885**	3.411	**562.296**
Changes on initial application of IFRS 9	-	-	-	(35.671)	-	1.987	**(33.684)**	-	**(33.684)**
Restated balance at 1 January 2018	99.237	260.269	515.609	(430.250)	33	80.303	**525.201**	3.411	**528.612**
Total comprehensive income/(expenses) for the year net of taxation									
Profit for the year	-	-	-	319.263	-	-	**319.263**	790	**320.053**
Other comprehensive expenses	-	-	-	-	-	(24.066)	**(24.066)**	-	**(24.066)**
Transfer due to the disposal of investments in equity and other securities and collective investment units measured at fair value through other comprehensive income	-	-	-	110	-	(110)	**-**	-	**-**
Transfer of excess depreciation on revaluation surplus	-	-	-	419	-	(419)	**-**	-	**-**
Transfer to revenue reserve due to the disposal of immovable property	-	-	-	396	-	(396)	**-**	-	**-**
	-	-	-	320.188	-	(24.991)	**295.197**	790	**295.987**
Transactions with shareholders									
Contributions and distributions									
Defence on deemed dividend distribution	-	-	-	(52)	-	-	**(52)**	-	**(52)**
	-	-	-	(52)	-	-	**(52)**	-	**(52)**
Balance 31 December 2018	99.237	260.269	515.609	(110.114)	33	55.312	**820.346**	4.201	**824.547**

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
Cash flow from operating activities			
Profit for the year		**108.428**	320.053
Impairment losses on financial instruments	14	**23.246**	67.238
Impairment losses on non financial assets	14	**13.487**	1.216
Depreciation of property, plant and equipment and amortisation of intangible assets	25, 26	**22.156**	11.202
Loss on disposal of property, plant and equipment and intangible assets		**32**	85
Gain on disposal and revaluation of investments in debt and equity and other securities and collective investment units		**(9.494)**	(23.650)
Net gains from revaluation of investment properties	11	**(2.191)**	-
Interest income from indemnification assets	6	**(995)**	-
Interest expense on indemnification assets	7	**-**	286
Interest expense on lease liability	7	**339**	-
Income from investments in debt and equity and other securities and collective investment units		**(104.926)**	(56.863)
Dividend income	11	**(581)**	(789)
Interest expense on loan capital	7	**-**	161
Share of results of associate company	24	**(1.524)**	(2.171)
Negative goodwill	48	**-**	(297.866)
Tax written off		**13**	-
Taxation	15	**(11.990)**	(576)
Operating profit before working capital changes		**36.000**	18.326
Decrease in loans and advances to customers		**284.052**	425.086
Increase in other assets		**(28.070)**	(23.922)
(Decrease)/increase in customer deposits and other customer accounts		**(107.514)**	121.721
Increase in other liabilities		**90.776**	8.263
(Increase)/decrease in placements with other banks		**(7.953)**	2.257
Decrease in cash and balances with Central Banks		**11.132**	794.206
Decrease in deposits by banks		**(42.209)**	(67.326)
Net cash from operating activities before taxation		**236.214**	1.278.611
Tax paid		**(958)**	(830)
Net cash from operating activities		**235.256**	1.277.781
Cash flow from investing activities			
Proceeds net of cash received from Acquisition	48	**-**	42.713
Payments for acquisition of remaining stake in subsidiary from NCI		**(5.985)**	-
Dividend received from associate company	24	**2.695**	774
Income from investments in debt and equity and oher securities and collective investment units		**104.926**	56.863
Net (additions)/disposals/maturity of investment in debt and equity and other securities and collective investment units		**232.786**	599.907
Additions of property, plant and equipment		**(36.223)**	(4.883)
Additions of intangible assets	26	**(13.119)**	(6.732)
Proceeds from disposal of property, plant and equipment		**10**	38
Net cash from investing activities		**285.090**	688.680
Cash flow from financing activities			
Proceeds from the issue of share capital	34	**144.970**	-
Payments of lease liability		**(5.183)**	-
Repayment of loan capital		**-**	(10.000)
Defence on deemed dividend distribution		**(1)**	(52)
Interest paid on loan capital	7	**-**	(161)
Dividend income	11	**581**	789
Net cash from/(used in) financing activities		**140.367**	(9.424)
Net increase in cash and cash equivalents		**660.713**	1.957.037
Cash and cash equivalents at the beginning of the year		**4.432.108**	2.475.071
Cash and cash equivalents at the end of the year	37	**5.092.821**	4.432.108

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
Interest income calculated using the effective interest method	6	**364.379**	234.974
Other interest income	6	**4.695**	5.916
Interest expense	7	**(67.847)**	(56.812)
Net interest income		**301.227**	184.078
Fee and commission income	8	**68.081**	55.774
Fee and commission expense	9	**(5.002)**	(3.821)
Net fee and commission income		**63.079**	51.953
Net gains on disposal and revaluation of foreign currencies and financial instruments	10	**10.030**	27.319
Other income	11	**21.064**	16.415
Total net income		**395.400**	279.765
Staff costs	12	**(121.449)**	(82.532)
Depreciation and amortisation	25, 26	**(21.887)**	(10.971)
Administrative and other expenses	13	**(121.346)**	(99.957)
Total expenses		**(264.682)**	(193.460)
Profit before impairment losses on financial instruments and non financial assets		**130.718**	86.305
Impairment losses on financial instruments	14	**(23.762)**	(67.388)
Impairment losses on non financial assets	14	**(10.311)**	(1)
Impairment losses on the cost of investment of subsidiary companies	14	**(2.914)**	(182)
Profit before negative goodwill and taxation		**93.731**	18.734
Negative goodwill	48	**-**	297.866
Profit before taxation		**93.731**	316.600
Taxation	15	**12.711**	1.309
Profit for the year		**106.442**	317.909
Basic and diluted earnings per share (€cent)	16	**29,18**	150,52

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	**2019 €'000**	2018 €'000
Profit for the year		**106.442**	317.909
Other comprehensive income			
Items that will not be reclassified in the income statement			
Taxation relating to components of other comprehensive income	35	**43**	69
Net revaluation surplus of investments in equity and other securities and collective investment units at fair value through other comprehensive income	35	**596**	337
		639	406
Items that are or may be reclassified subsequently in the income statement			
Net revaluation surplus/(deficit) of investments in debt securities at fair value through other comprehensive income	35	**4.081**	(6.270)
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income reclassified to income statement on disposal	35	**-**	(18.281)
		4.081	(24.551)
Other comprehensive income/(expenses) for the year net of taxation		**4.720**	(24.145)
Total comprehensive income for the year		**111.162**	293.764

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
Assets			
Cash and balances with Central Banks	17,37	**4.961.970**	4.391.442
Placements with other banks	18,37	**373.743**	294.283
Loans and advances to customers	19	**5.979.148**	6.283.438
Debt securities	20	**4.299.445**	4.525.629
Equity and other securities and collective investment units	22	**14.136**	11.497
Investments in subsidiary companies	23	**103.541**	87.595
Investment in associate company	24	**6.811**	6.811
Property, plant and equipment	25	**173.708**	95.064
Intangible assets	26	**34.497**	31.710
Tax receivable		**151**	69
Deferred tax asset	27	**15.937**	16.326
Other assets	28	**230.817**	322.582
Total assets		**16.193.904**	16.066.446
Liabilities			
Deposits by banks	29	**173.990**	216.199
Customer deposits and other customer accounts	30	**14.601.654**	14.709.324
Amounts due to subsidiary companies	23	**14.310**	16.864
Tax payable		**5.142**	5.124
Deferred tax liability	31	**31.069**	44.249
Other liabilities	32	**174.741**	137.772
Loan capital	33	**129.666**	129.667
Total liabilities		**15.130.572**	15.259.199
Equity			
Share capital	34	**206.403**	99.237
Reserves		**856.929**	708.010
Total equity		**1.063.332**	807.247
Total liabilities and equity		**16.193.904**	16.066.446
Contingent liabilities and commitments	36	**1.382.502**	1.366.159

The Financial Statements have been approved by the Board of Directors on 18 May 2020.

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

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital (Note 34) €'000	Reduction of share capital reserve (Note 34) €'000	Share premium reserve (Note 34) €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 35) €'000	Total €'000
Balance 1 January 2019	99.237	260.269	515.476	(120.330)	67	52.528	**807.247**
Total comprehensive income for the year net of taxation							
Profit for the year	-	-	-	106.442	-	-	**106.442**
Other comprehensive income	-	-	-	-	-	4.720	**4.720**
Transfer of excess depreciation on revaluation surplus	-	-	-	410	-	(410)	**-**
	-	-	-	106.852	-	4.310	**111.162**
Transactions with shareholders							
Contributions and distributions							
Issue of shares	107.166	-	42.866	-	-	-	**150.032**
Expenses from issue of shares	-	-	(5.061)	-	-	-	**(5.061)**
Loss from acquisition of remaining stake in subsidiary from NCI (Note 23)	-	-	-	(48)	-	-	**(48)**
	107.166	-	37.805	(48)	-	-	**144.923**
Balance 31 December 2019	206.403	260.269	553.281	(13.526)	67	56.838	**1.063.332**

Loss from acquisition of remaining stake in subsidiary from NCI refers to exepnses relating to the acquisition of the 27,5% stakeholding of the share capital of the Bank's subsidiary company Hellenic Alico Life Insurance Company Ltd (refer to Note 23).

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Share capital (Note 34) €'000	Reduction of share capital reserve (Note 34) €'000	Share premium reserve (Note 34) €'000	Revenue reserve €'000	Translation reserve €'000	Revaluation reserves (Note 35) €'000	Total €'000
Balance 1 January 2018	99.237	260.269	515.476	(404.666)	67	75.544	**545.927**
Adjustment on initial application of IFRS 9 net of taxation	-	-	-	(35.671)	-	2.054	**(33.617)**
Restated balance at 1 January 2018	99.237	260.269	515.476	(440.337)	67	77.598	**512.310**
Total comprehensive income/(expenses) for the year net of taxation							
Profit for the year	-	-	-	317.909	-	-	**317.909**
Other comprehensive expenses	-	-	-	-	-	(24.145)	**(24.145)**
Transfer of excess depreciation on revaluation surplus	-	-	-	419	-	(419)	**-**
Transfer to revenue reserve due to disposal of property	-	-	-	396	-	(396)	**-**
Transfer due to the disposal of investments in equity and other securities and collective investment units measured at fair value through other comprehensive income	-	-	-	110	-	(110)	**-**
Transfer of reserves due to absorption of subsidiaries' operations (Note 23)	-	-	-	1.225	-	-	**1.225**
	-	-	-	320.059	-	(25.070)	**294.989**
Transactions with shareholders							
Contributions and distributions							
Defence on deemed dividend distribution	-	-	-	(52)	-	-	**(52)**
	-	-	-	(52)	-	-	**(52)**
Balance 31 December 2018	99.237	260.269	515.476	(120.330)	67	52.528	**807.247**

The notes on pages 34 to 203 form an integral part of the Financial Statements.

HELLENIC BANK PUBLIC COMPANY LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 €'000	2018 €'000
Cash flow from operating activities			
Profit for the year		**106.442**	317.909
Impairment losses on financial instruments	14	**23.762**	67.388
Impairment losses on non financial assets	14	**10.311**	1
Impairment losses on the cost of investment of a subsidiary companies	14	**2.914**	182
Depreciation of property, plant and equipment and amortisation of intangible assets	25, 26	**21.887**	10.971
Loss on disposal of property, plant and equipment and intangible assets		**13**	87
Gain on disposal and revaluation of investments in debt and equity and other securities and collective investment units		**(8.860)**	(23.874)
Interest expense on lease liability	7	**342**	-
Net gains from revaluation of investment properties	11	**(1.451)**	-
Interest income from indemnification assets	6	**(995)**	-
Interest expense on indemnification assets	7	**-**	286
Income from investments in debt and equity and other security and collective investment units		**(102.796)**	(62.462)
Dividend income	11	**(6.663)**	(3.593)
Interest expense on loan capital	7	**-**	161
Negative goodwill	48	**-**	(297.866)
Taxation	15	**(12.711)**	(1.309)
Cash generated from operations before working capital changes		**32.195**	7.881
Decrease in loans and advances to customers		**284.052**	425.088
Decrease/(increase) in other assets		**32.601**	(18.263)
(Decrease)/increase in customer deposits and other customer accounts		**(107.670)**	121.877
Increase in other liabilities		**35.400**	9.509
(Increase)/decrease in placements with other banks		**(9.943)**	3.081
Decrease in cash and balances with Central Banks		**11.132**	794.206
Decrease in deposits by banks		**(42.209)**	(67.326)
Decrease in amounts due to subsidiary companies		**(2.554)**	(6.909)
Net cash from operating activities before taxation		**233.004**	1.269.144
Tax paid		**(101)**	(236)
Net cash from operating activities		**232.903**	1.268.908
Cash flow from investing activities			
Net increase in investment in subsidiary companies	23	**(18.860)**	(2.416)
Proceeds net of cash received from the Acquisition	48	**-**	42.713
Loss from acquisition of remaining stake in subsidiary from NCI		**(48)**	-
Income from investments in debt and equity and other securities and collective investment units		**102.796**	62.462
Net (additions)/disposals/maturity of investments in debt and equity and other security and collective investments units		**236.920**	602.465
Additions of property, plant and equipment		**(36.196)**	(4.848)
Additions of intangible assets	26	**(13.119)**	(6.571)
Proceeds from disposal of property, plant and equipment		**10**	37
Net cash from investing activities		**271.503**	693.842
Cash flow from financing activities			
Proceeds from the issue of share capital	34	**144.970**	-
Payments of lease liability		**(5.214)**	-
Repayment of loan capital		**-**	(10.000)
Defence on deemed dividend distribution		**-**	(52)
Interest paid on loan capital	7	**-**	(161)
Dividend income	11	**6.663**	3.593
Net cash from/(used in) financing activities		**146.419**	(6.620)
Net increase in cash and cash equivalents		**650.825**	1.956.130
Cash and cash equivalents at the beginning of the year		**4.421.232**	2.465.102
Cash and cash equivalents at the end of the year	37	**5.072.057**	4.421.232

The notes on pages 34 to 203 form an integral part of the Financial Statements.

1. INCORPORATION AND PRINCIPAL ACTIVITY

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

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

2. REPORTING GROUP STRUCTURE

The Financial Statements for the year ended 31 December 2019 comprise of the Financial Statements of Hellenic Bank Public Company Limited and its subsidiary companies, which together are referred to as the Group.

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

The measurement principle in IFRS 3 is that the identifiable assets acquired and the liabilities assumed as part of a business combination are measured at the date of acquisition at their fair values. There are limited exceptions to this measurement principle. All identifiable assets acquired and liabilities assumed were recognised in accordance with IFRS 3 requirements at the date of acquisition and at initial consolidation.

Additional information on the acquired assets and liabilities assumed is presented in Note 48.

3. SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Basis of preparation

(a) Going concern principle
The Financial Statements have been prepared on a going concern basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of measurement
The Financial Statements have been prepared on the historical cost basis, except from derivatives, financial assets at fair value through profit or loss, investments classified at fair value through other comprehensive income, properties for own use and investment properties which are measured at fair value. Stock of property is measured at the lower of cost and net realisable value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

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

As from 1 January 2019, 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 except from the adoption of IFRS 16 "Leases" the impact of which is analysed below.

(i) Recently adopted IFRSs and interpretations

The following Standards and interpretations are those standards and interpretations which are relevant to the Group and which have been applied in the preparation of these Financial Statements.

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

Applicable on 1 January 2019

IFRS 16 "Leases" has an effective date for annual periods beginning on or after 1 January 2019 and replaces relevant leases guidance including IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases-Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases were accounted for under IAS 17 "Leases" and includes all contracts that convey the right to use an asset for a period of time in exchange for consideration.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 for lessees eliminates the classification of leases as either operating leases or finance leases as was required by IAS 17 and, instead, introduces a single lessee accounting model.

The Group is required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of leased assets separately from interest on lease liability in the income statement. The initial recognition of the right of use asset and lease liability is based on the discounted payments required under the lease, taking into account the lease term as determined by the new standard. Also, all lease liabilities are measured with reference to an estimate of the lease term, which includes optional lease periods when an entity is reasonably certain to exercise an option to extend (or not to terminate) a lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17. Accordingly, the Group as a lessor will continue to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As permitted by the Standard, the Group applied the modified retrospective approach, which means that it applied the standard without restatement of comparatives where the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings.

The Group presents the right-of-use assets under Property, plant and equipment and lease liability in Other liabilities in the Statement of Financial Position. The Group has elected not to recognise right-of-use assets and lease liability for all leases for which the lease term ends within 12 months of the date of initial application and recognise such leases as short-term leases. The Group recognises lease payments as an expense on a straight line basis over the lease term.

i) Impact on transition

The impact that the application of IFRS 16 had on the financial statements of the Group as of 1 January 2019 was an increase in assets of €53,0 million (Bank: €53,2 million) and a corresponding lease liability of €53,0 million (Bank: €53,2 million), with no impact on the retained earnings or equity of either the Group or the Bank. When measuring lease liability, the Group and the Bank discounted lease payments using their incremental borrowing rate at 1 January 2019. The weighted average rate applied is c. 3%.

	Group	Bank
	€'000	€'000
Operating lease commitments disclosed as of 31 December 2018	787	787
Discounted operating lease commitments disclosed as of 31 December 2018 using the lessee's incremental borrowing rate at the date of initial application	749	749
Leases with purchase option reasonably certain to be exercised relating to ex-CCB properties	43.172	43.172
Leases with purchase option not reasonably certain to be exercised relating to ex-CCB properties	2.461	2.461
Recognition as a result of a different treatment of extension options	6.634	6.855
Lease liability as of 1 January 2019	**53.016**	**53.237**

ii) Impact for the year

Upon initial application of IFRS 16, instead of operating lease expense, the Group and the Bank has recognised depreciation and interest costs. During the year ended 31 December 2019, the depreciation cost recognised resulting from the RoU (refer to Note 25) amounted to €4,8 million for the Group and the Bank while the interest cost resulting from the lease liability (refer to Note 32) amounted to €339 thousand for the Group and €342 thousand for the Bank.

Applicable before 1 January 2019

Group as lessee
Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in "Administrative and other expenses" in the consolidated income statement on a straight-line basis over the lease term.

Group as lessor
Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Operating lease payments received under operating leases are recognised as income on a straight-line basis over the lease term as part of "Other income".

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In October 2017, the IASB issued "Prepayment Features with Negative Compensation (Amendments to IFRS 9)". These amendments allow financial assets with such features to be measured at amortised cost or fair value through other comprehensive income provided that they meet the other relevant requirements of IFRS 9. To qualify for amortised cost measurement, the negative compensation must be "reasonable compensation for early termination of the contract" and the asset must be held within a "held to collect" business model. These amendments do not have a material effect on the financial statements of the Group.

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

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. More specifically, it clarifies the application of IAS 12 to accounting for income tax treatments that have yet to be accepted by tax authorities, in scenarios where it may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept an entity’s tax treatment. This interpretation does not have a material effect on the financial statements of the Group.

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

In October 2017, the IASB issued "Long term interests in Associates and Joint Ventures" (Amendments to IAS 28). The amendments clarify the accounting for long term interests in an associate or joint venture that forms part of the net investment in the associate or joint venture, but to which equity accounting is not applied. These amendments do not have a material effect on the financial statements of the Group.

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

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

- IFRS 3 "Business Combinations": the amendments clarify that when an entity obtains control of a business that is a joint operation, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest in that business at fair value.

- IFRS 11 "Joint Arrangements": the amendments clarify that the party obtaining joint control of a business that is a joint operation should not remeasure its previously held interest in the joint operation.

- IAS 12 "Income Taxes": the amendments clarify that all income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised – i.e. in profit or loss, OCI or equity.

- IAS 23 "Borrowing Costs": the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

These amendments do not have a material effect on the financial statements of the Group.

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. These amendments do not have a material effect on the financial statements of the Group.

(ii) New and revised IFRSs

The following Standards, Amendments to Standards and Interpretations have been issued by International Accounting Standards Board ("IASB") but are not yet effective for annual periods beginning on 1 January 2019. Those which may be relevant to the Company are set out below. The Bank does not plan to adopt these Standards early.

Standards and Interpretations adopted by the European Union

Amendments to references to the Conceptual Framework in IFRSs (effective for annual periods beginning on or after 1 January 2020)

In March 2018 the IASB issued a comprehensive set of concepts for financial reporting, the revised "Conceptual Framework for Financial Reporting" (Conceptual Framework), replacing the previous version issued in 2010. The main changes to the framework's principles have implications for how and when assets and liabilities are recognised and derecognized in the financial statements, while some of the concepts in the revised Framework are entirely new (such as the "practical ability" approach to liabilities). To assist companies with the transition, the IASB issued a separate accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards". This document updates some references to previous versions of the Conceptual Framework in IFRS Standards, their accompanying documents and IFRS Practice Statements. The Group is currently evaluating the expected impact of adopting these amendments on its financial statements.

IAS 1 "Presentation of Financial Statements" (Amendments) and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" (Amendments): Definition of Material (effective for annual periods beginning on or after 1 January 2020)

The amendments clarify and align the definition of 'material' and provide guidance to help improve consistency in the application of that concept whenever it is used in IFRS Standards. The amendments include definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

- Old definition: Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements (IAS 1 "Presentation of Financial Statements").

- New definition: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Group is currently evaluating the expected impact of adopting these amendments on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 "Financial Instruments" (Amendments), IAS 39 "Financial Instruments: Recognition and Measurement" (Amendments) and IFRS 7 "Financial Instruments: Disclosures" (Amendments): Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020)

The amendments address issues affecting financial reporting and provide targeted relief for financial instruments qualifying for hedge accounting in the lead up to interbank offered rates (IBOR) reform. They are mandatory and apply to all hedging relationships directly affected by uncertainties related to IBOR reform. All companies with hedges affected by IBOR reform are required to:

- assume that the interest rate benchmark on which hedged cash flows are based is not altered as a result of IBOR reform when assessing whether the future cash flows are highly probable. Also, for discontinued hedging relationships, the same assumption is applied for determining whether the hedged future cash flows are expected to occur.

- assess whether the economic relationship between the hedged item and the hedging instrument exists based on the assumptions that the interest rate benchmark on which the hedged item and the hedging instrument are based is not altered as a result of IBOR reform.

- not discontinue a hedging relationship during the period of uncertainty arising from IBOR reform solely because the actual results of the hedge are outside the range of 80-125 per cent.

- apply the separately identifiable requirement only at the inception of the hedging relationship. A similar exception is also provided for redesignation of hedged items in hedges where dedesignation and redesignation take place frequently – e.g. macro hedges.

- prospectively cease applying the exceptions at the earlier of:
  (a) when the uncertainty regarding the timing and the amount of interest rate benchmark based cash flows is no longer present; and
  (b) the discontinuation of the hedging relationship (or reclassification of all amounts from the cash flow hedge reserve).

The assessment of uncertainty should be performed on an item-by-item basis for hedges involving groups of items.

- disclose:
  - the significant interest rate benchmarks to which hedging relationships are exposed;
  - the extent of risk exposure that is affected by IBOR reform;
  - how the transition to alternative benchmark interest rates is being managed;
  - a description of significant assumptions or judgements made in applying the amendments; and
  - the nominal amount of the hedging instruments in those hedging relationships.

The Group is currently evaluating the expected impact of adopting these amendments on its financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and Interpretations not adopted by the European Union

IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021 - in March 2020, the effective date was deferred to 1 January 2023)

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 Contracts” that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), 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 insurance subsidiaries of the Group do not plan to adopt the standard early. The companies have completed the gap analysis which revealed that the impact of the standard on their financial statements is expected to be significant, and they will initiate the implementation process.

IFRS 3 “Business Combinations” (Amendments): Definition of a Business (effective for annual periods beginning on or after 1 January 2020)

The amendments narrow and clarify the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance. Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business. The Group is currently evaluating the expected impact of adopting these amendments on its financial statements.

IFRS 10 “Consolidated Financial Statements” (Amendments) and IAS 28 “Investments in Associates and Joint Ventures” (Amendments): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date postponed indefinitely)

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (as defined in IFRS 3). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The Group is currently evaluating the expected impact of adopting these amendments on its financial statements.

The financial statements contain a summary of the accounting policies adopted in the preparation of the Consolidated Financial Statements in Notes 3.3. to 3.34.

3.3. Basis of consolidation

3.3.1. Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (Refer to Note 3.3.2.).The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any negative goodwill is recognised in profit or loss immediately. Transactions costs are expensed as incurred, except if related to the issue of debt or equity securities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at the fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

3.3.2. Subsidiaries

The Group controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Investment in subsidiaries are presented at cost in the Bank's statement of financial position less provision for impairment, where applicable.

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

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

3.3.3. Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3.3.4. Loss of control

When the Group losses control over a subsidiary, it derecognized the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

3.3.5. Associates

Associates are entities in which the Group has significant influence, but not control, over their financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are presented at cost less provision for impairment in the Bank's statement of financial position whereas in the Consolidated Financial Statements, they are accounted for using the equity method. They are initially recognised at cost which includes transaction costs. Subsequent to initial recognition, the Consolidated Financial Statements include the Group's share of profit or loss and OCI of the associates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Foreign currency

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

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

The Group also hedges the foreign currency risk that derives from the translation to Euro of the net position of its foreign subsidiaries by maintaining an open foreign exchange position. All exchange differences resulting from the translation of the open foreign exchange position are recognised in the translation reserve. There was no movement in the translation reserve since the termination of the foreign operations.

3.5. Segment reporting

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Turnover

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

3.7. Interest income and expense

Interest expense on financial liabilities held at amortised cost is calculated using the effective interest method (EIR) which allocates interest over the expected live of the financial liabilities. Interest expense also includes negative interest on financial assets and interest expense on lease liability.

Interest income on loans and advances at amortised cost is calculated by applying the EIR on the gross carrying amount of the asset, unless the asset is credit-impaired. For financial assets that are credit-impaired, interest income is calculated by applying EIR to the amortised cost (i.e. gross carrying amount less credit loss allowance). For purchased or originated credit impaired (POCI) financial assets, interest income is recognised by applying a credit adjusted EIR (CAEIR) (based on an initial expectation of further credit losses) on the amortised cost of the financial asset. Negative interest rates applicable on certain types of financial liabilities held at amortised cost are recognised as interest income and are classified as such.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial asset or liability to the net carrying amount of the financial asset or liability.

3.8. Fee and commission income and expense

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

The Group applies the IFRS 15, “Revenue from Contracts with Customers” five-step revenue recognition model to recognise commissions and fee income, under which income is recognised when control of goods and services is transferred, hence the contractual performance obligations to the customer has been satisfied.

As a first step, the Group identifies the contract with the customer and subsequently the performance obligation. The amount of income is measured on the basis of the contractually agreed transaction price and is allocated to the performance obligations defined in the contract. Income is recognised in profit or loss when the identified performance obligation has been satisfied.

3.9. Dividend income

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

3.10. Income from hire purchase

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Investment properties rental income

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

3.12. Leases

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

Policy applicable from 1 January 2019

The Group leases land and building for its branches. Identifying a lease requires significant amount of judgement based on the definition of a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In addition, where practicable/feasible, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options are exercisable by the Group companies and not the lessor. As a result, the Group applied judgement to determine whether it is reasonably certain that an extension option or termination option will be exercised which in effect impacts the determination of the lease term and hence, the determination of the discount rate and the amounts that the lease liability and right-of-use assets are recognised.

Group as lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to the branches or office premises.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term. In addition, right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from the change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if carrying amount of the right-of-use has been reduced to zero.

The Group also leases vehicles and equipment. For those assets, the Group applied either the short-term exemption or the low value asset exemption and such assets are not presented on the Group's balance sheet. Instead, payments are recognised on a straight line basis over the lease term.

Group as lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling price, When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets and

- the arrangement had conveyed a right to use the asset

Group as lessee

Leases that do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term in “Administrative and other expenses”.

Group as lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases.

3.13. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Employee retirement benefits

The Group participates in 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 (CA) between the Cyprus Bankers Employers' Association and the Cyprus Union of Bank Employees and/or between Hellenic Bank and the Cyprus Union of Bank Employees. Under these terms of employment, a defined contributions Provident Fund scheme for employees was set up.

The rules and regulations of the Provident Fund scheme is governed by the Cyprus legislation. The employer's contribution to the Provident Fund for the Hellenic Bank legacy employees is set at 9%. The employer's contribution to the Provident Fund for the majority of the ex-CCB transferred employees who have chosen to become members of the said Fund is set at 7% and different terms also apply for those ex-CCB transferred employees who have chosen to remain members of the different Provident Fund schemes which were in operation before the transfer. The different percentage and terms of Provident Fund schemes for the ex-CCB transferred employees which derived from CA, is attributed to the fact that Hellenic Bank is required, under TUPE, to observe the terms of any CA until the date of the termination, or expiry of the CA, or until the entry into force, or application of another CA, in each case for a minimum of one year.

The Bank also offers to employees whose employment contracts are not in accordance with the terms of employment of the CA, the option to become members of multi-employer defined contribution Provident Fund schemes of their choice to which the employer's contribution is set at 9%.

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

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

3.15. 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. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes. It is measured using tax rates enacted at the reporting date.

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 is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date, and reflects uncertainty related to income taxes.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

3.16. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Financial instruments

The Group applies IFRS 9 Financial Instruments to the recognition, classification and measurement, and derecognition of financial assets and financial liabilities and the impairment of financial assets.

3.17.1. Recognition and initial measurement

The Group initially recognises loans and advances to customers, customers 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 party to the contractual provisions of the instrument.

A financial asset or a financial liability is initially measured at fair value plus, for an item measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue. The fair value of a financial instrument at initial recognition is generally its transaction price. Financial instruments without significant financing component are initially measured at the transaction price.

3.17.2.Classification and Measurement of financial assets and liabilities

The classification of financial assets is determined on the basis of the Bank’s business model within which the financial assets are managed and the contractual cash flow characteristics (whether the cash flows represent ‘solely payments of principal and interest’ (SPPI)).

Business Model Assessment

The Group assessed the business model criteria at a portfolio level because this best reflects the way in which the business is managed, and information is provided to management. Information that is considered in determining the applicable business model includes:

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The contractual cash flow characteristics of financial assets are assessed, at product level, with reference to whether the cash flows represent SPPI. "Principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms that could change the contractual cash flows so that it would not meet the condition for SPPI, including: (i) contingent and leverage features, (ii) non-recourse arrangements and (iii) features that could modify the time value of money.

Measurement categories of financial assets and liabilities

Financial Assets at amortised cost

Financial assets are classified and subsequently measured at amortised cost, unless designated under the fair value option, if the financial asset is held in a "Hold to Collect" business model and the contractual cash flows are SPPI.

At initial recognition, the financial asset is measured at fair value including any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortised cost is also reduced with any expected credit loss allowance. Interest income, foreign exchange gains and losses and impairment are recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

The classification relates to cash and balances with Central Bank, placements with other banks, loans and advances to customers that pass the SPPI test, debt securities held under the "Hold to collect" business model and indemnification assets.

Debt Instruments at Fair Value through Other Comprehensive Income (FVOCI)

Debt Instruments are classified and measured at fair value through other comprehensive income (FVOCI), unless designated under the fair value option, if the financial asset is held in a "Hold to Collect and Sell" business model and the contractual cash flows are SPPI.

Upon subsequent measurement of FVOCI a gain or loss on debt instruments shall be recognised in other comprehensive income, except for impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in the income statement. When the debt instrument is derecognised the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

Financial Assets at Fair Value through Profit or Loss (FVTPL)

A financial asset that has been originated, acquired or incurred principally for the purpose of trading or that is not managed within a "hold to collect" or a "hold to collect and sell" business model shall be measured at FVTPL. Trading financial assets include debt and equity securities and derivatives held for trading.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Additionally, instruments for which the contractual cash flows do not meet the SPPI assessment must be measured at FVTPL even if they are managed within a business model whose objective is "hold to collect" or "hold to collect and sell".

At initial recognition, the Bank may also choose to irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Upon subsequent measurement of FVTPL a gain or loss on financial asset shall be recognised in the income statement.

Equity instruments at Fair Value through Other Comprehensive Income (FVOCI)

An equity instrument is any instrument that meets the definition of equity from the issuer's perspective. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI. For equity securities at FVOCI, other net gains and losses are recognised in OCI and are never reclassified to the income statement. No impairment loss is recognised in the income statement.

Derivatives

Derivatives include mainly forward contracts, interest rate and currency swaps.

Derivatives are recognised initially and are subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument is assessed for classification in its entirety.

Financial Liabilities

Financial liabilities include deposits by banks, customer deposits and other customer accounts and are classified as measured at amortised cost or FVTPL.

A financial liability is classified as FVTPL if it is classified as held for trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the income statement. Any gain or loss on derecognition is also recognised in the income statement.

For financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income.

Loan capital

On issuance of bonds an assessment is made to determine whether the instruments issued should be classified as financial liabilities or as compound financial instruments that contain both liability and equity elements, as these are accounted for separately, as financial liabilities and equity respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Bonds issued that represent contracts that will or may be settled in the entity's own equity instruments and they are non-derivative contracts that consist an obligation for the entity to deliver a variable number of its own equity instruments are classified as financial liabilities. Furthermore, a single obligation to deliver a variable number of an entity's own equity instruments is a non-derivative obligation that meets the definition of a financial liability and cannot be subdivided into components for the purpose of evaluating whether the instrument contains a component that meets the definition of equity.

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

3.17.3. Reclassification of financial assets and liabilities

Financial assets subsequent to their initial recognition are not reclassified to other measurement category (as mentioned above), unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

3.17.4. Derecognition of financial assets and financial liabilities

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Derecognition of financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Derecognition and contract modification

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss and is presented together with impairment losses. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit adjusted effective interest rate for purchased or originated credit impaired financial assets) and is compared to the gross carrying amount of the original loan.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

3.17.5. Impairment of financial assets

The "Expected Credit Loss (ECL)" approach applies to all debt instruments that are measured at amortised cost or FVOCI, and to off balance sheet lending commitments such as loan commitments and financial guarantees. IFRS 9 replaced the “incurred loss” impairment approach with a forward looking ECL model where provisions are taken upon initial recognition of the financial asset reflecting expectation of potential credit losses at the time of initial recognition. The Group recognised a loss allowance for such losses at each reporting date.

Measurement of ECL

The measurement of ECL reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes and considering reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group calculates ECL as the product of probability of default (PD), exposure at default (EAD) and loss given default (LGD). Refer to sections below for details on each of these components.

ECL for exposures in Stage 1 are calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month ECL or lifetime ECL. At initial recognition, an impairment allowance is required for expected credit losses (ECL) resulting from default events that are possible within the next 12 months (12 month ECL). In the event of a significant increase in credit risk, an allowance is required for ECL resulting from all possible default events over the expected life of the financial instrument (lifetime ECL). IFRS 9 requires the classification of facilities/customers in three stages, according to the increases in credit risk level, considering certain criteria:

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- Stage 1: Financial Instruments are classified as stage 1 when the credit risk has not increased significantly since initial recognition. The Group recognises a credit loss allowance at an amount equal to 12 month expected credit losses.

- Stage 2: Financial Instruments are classified as stage 2 when the credit risk has increased significantly since initial recognition but not to the point that the asset is credit impaired. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

- Stage 3: Financial Instruments are classified as stage 3 when the credit quality of a financial asset deteriorates to the point that the asset is credit impaired. The Bank aligned Stage 3 classification with the NPE classification consistent with the definition used for internal credit risk management purposes. The Group recognises a credit loss allowance at an amount equal to lifetime expected credit losses.

Financial assets that are credit impaired upon initial recognition are categorized within Stage 3 with a carrying value already reflecting the lifetime expected credit losses. The accounting treatment for these purchased or originated credit impaired (POCI) assets is discussed further below.

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

Loans and advances acquired as part of a business combination are initially recognised at fair value. The fair values on initial recognition form the gross amount of the loans irrespective of the principal amount of these loans and what constituted the gross carrying amount of these loans in the accounting records of the Seller. In cases where the acquired loans were credit impaired, the Bank includes the initial expected credit losses in the estimated cash flows when calculating the credit adjusted effective interest rate. Accordingly, the effective interest rate of a POCI would be the discount rate that equates the present value of the expected cash flows with the purchase price of the loan.

Probability of default (PD)

PD represents the likelihood of a borrower defaulting on their financial obligation in a specified time period, assuming it has not closed or defaulted since the reporting date. Projection of PDs is based on macro economic scenarios and are differentiated based on segment (e.g. Retail, SME and Corporate), and status (e.g. 0 dpd, Restructured). For the external rated exposures (e.g. Treasury and International lending), the historical default rates published by Moody's per segment are utilized. For the non external rated facilities, i.e. local loan book, the PD is estimated based on the Bank's historical default rates.

Exposure at default (EAD)

EAD represents the amount expected to be owed if a default event was to occur. The EAD is determined by calculating the expected cash flows which vary depending on the product type (e.g. revolving products). By analyzing the behavior of the product types, the behavioral maturity of these products is estimated. The utilization of the off balance sheet of revolving products is also considered in determining Credit Conversion Factor (CCF) allocation.

Loss given default (LGD)

LGD represents an estimate of the loss arising on default. It is calculated as the expected loss at default divided by EAD. LGD is based on factors that impact the likelihood and value of any subsequent write off, in which case it takes into account property prices, liquidation haircuts due to forced sale or market conditions, liquidation periods and other factors.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Forward looking information

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

Macroeconomic input and weights per scenario are constructed by the Economic Research Department of the Bank through modern econometric techniques and are based on expert judgment based on market data.

The table below shows the macroeconomic variables for each scenario and the respective scenario weights:

Cyprus Economy - Macroeconomic Forecasts*

Scenarios		**2020**	**2021**	**2022**	**Probability – weight %**
	Real GDP (% change)	**3,6**	3,2	3,0	
	Unemployment (%)	**6,0**	5,5	5,0	
Optimistic	Inflation (% change)	**1,6**	2,0	2,2	25%
	Residential Price Index (% change)	**3,6**	3,0	3,0	
	Commercial Price Index (% change)	**3,6**	3,2	3,0	
	Real GDP (% change)	**3,0**	2,8	2,6	
	Unemployment (%)	**6,5**	6,1	5,8	
Baseline	Inflation (% change)	**1,2**	1,2	1,4	50%
	Residential Price Index (% change)	**2,8**	2,5	2,5	
	Commercial Price Index (% change)	**3,0**	2,5	2,5	
	Real GDP (% change)	**0,5**	1,0	1,2	
	Unemployment (%)	**9,5**	8,5	8,0	
Pessimistic	Inflation (% change)	**(0,1)**	0,5	0,8	25%
	Residential Price Index (% change)	**(1,0)**	0,5	1,5	
	Commercial Price Index (% change)	**(1,5)**	1,0	1,5	

*Note: Macroeconomic forecasts have not incorporated any effects from the coronavirus outbreak.

Currently, the impact from the recent coronavirus outbreak cannot be assessed with precision. The sectors of the Cyprus economy that are expected to be most affected are tourism, trade and transportation. While it is expected to be significant, the Bank's baseline assumption is that it will be temporary. For recent developments on the impact of the coronavirus on the Bank refer to Note 50.

The Bank is continuously monitoring the developments from the coronavirus outbreak and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Definition of default

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

Purchased or Originated Credit Impaired Financial assets (POCI)

Financial assets are considered purchased or originated credit impaired (POCI) if upon initial recognition they are purchased or originated at a deep discount that reflects evidence of impairment. Since the asset is originated credit impaired, the Bank only recognises the cumulative changes in lifetime ECL since initial recognition as a loss allowance in profit or loss until the POCI is derecognised.

Significant increase in credit risk

Under IFRS 9, an assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting date by considering the change in the risk of default occurring over the remaining life of the financial instrument. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Group's historical experience, expert credit assessment and forward looking information. The assessment of significant increase in credit risk is key in determining when to move from measuring an allowance based on 12 month ECLs to one that is based on lifetime ECLs.

The criteria for determining whether the exposure has experienced significant deterioration in credit risk since origination are in line with Stage 2 criteria and are as follows:

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

Interest income recognition

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 by applying the effective interest rate (EIR). For financial assets at Stage 3, interest income is calculated by applying EIR to the amortised cost (i.e. gross carrying amount less credit loss allowance). For POCI financial assets, interest income is recognised by applying a credit adjusted EIR (CAEIR) (based on an initial expectation of further credit losses) on the amortised cost of the financial asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Write offs

The Group reduces, either partially or in full, the carrying amount of a financial asset when there is no reasonable expectation of recovery.

3.18. Impairment of Non financial assets

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

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

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

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

3.19. Financial guarantees and loan commitments

In a business combination, acquired off balance sheet exposures that were not previously recognised in the acquiree's financial statements, but have a fair value on acquisition date, are recognised on the acquirer's financial statements and are initially measured at fair value at the date of acquisition. Off balance sheet exposures acquired by the Bank as part of the Acquisition (Refer to Note 2 and 48) consist of financial guarantee contracts and loan commitments.

Financial guarantees contracts issued by the Bank are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure loans, overdrafts and other banking facilities. From the issuer's perspective, financial guarantee contracts fall in the scope of IFRS 9.

Loan commitments represent unused portions of authorisations to extend credit under pre-specified terms and conditions in the form of loans, guarantees or letters of credit.

Subsequent to initial recognition, issued financial guarantee contracts and commitments to provide loans at below-market rate are measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less the cumulative amount of income recognised in accordance with IFRS 15 (where applicable). Other loan commitments are subsequently measured at the amount of the loss determined in accordance with IFRS 9.

Liabilities arising from financial guarantees and loan commitments are included within provisions/other liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Hedge Accounting

IFRS 9 requires the Bank to ensure that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assess hedge effectiveness. IFRS 9 also introduced new requirements on rebalancing hedge relationships and prohibiting voluntary discontinuation of hedge accounting. The Bank designated certain interest rate swaps as hedging instruments in respect of interest rate risk in a fair value hedges. The hedged instruments are certain fixed rate Cyprus Government Bonds (CGBs) that were on boarded as a result of the Acquisition in 2018. The Bank ensures that hedge accounting relationships are aligned with the Group's risk management objectives and strategy and applies a qualitative and forward looking approach to assess hedge effectiveness in accordance with IFRS9 requirements.

Hedging derivatives are reported as other assets and other liabilities. If a derivative is subsequently de-designated from a hedging relationship, it is transferred to financial assets/liabilities at fair value through profit or loss. For fair value hedges, the changes in the fair value of the hedged asset attributable to the risk being hedged, are recognized in the Consolidated Income Statement along with changes in the entire fair value of the derivative. When hedging interest rate risk, any interest accrued or paid on both the derivative and the hedged item is reported in interest income or expense and the unrealized gains and losses from the hedge accounting fair value adjustments are reported in other income. Hedge ineffectiveness is reported in other income and is measured as the net effect of changes in the fair value of the hedging instrument.

If a fair value hedge of a debt instrument is discontinued prior to the instrument's maturity because the derivative is terminated, or the relationship is de-designated, any remaining interest rate-related fair value adjustments made to the carrying amount of the debt instrument (basis adjustments) are amortized to interest income or expense over the remaining term of the original hedging relationship. For other types of fair value adjustments and whenever a fair value hedged asset or liability is sold or otherwise derecognized, any basis adjustments are included in the calculation of the gain or loss on derecognition.

Additional information on hedge accounting is presented in Note 21.

3.21. Cash and cash equivalents

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

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

3.22. Repurchase agreements

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Indemnification Asset

An indemnification asset arises when the seller in a business combination is contractually obliged to indemnify the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. In other words, the seller guarantees that the acquirer's losses will not exceed a specified amount.

The indemnification asset is recognised as an asset of the Group (as the acquirer in a business combination) at the same time and on the same basis as the indemnified item. Thus, an indemnification asset is recognised by the Group at the acquisition date if and only if it relates to an indemnified asset or liability that is recognised at the acquisition date.

The indemnification asset is initially recognised at fair value. Subsequent to initial recognition, the indemnification asset is measured at amortised cost using the effective interest method. It is also subject to impairment requirements (refer to Note 3.17.4).

In relation to the Acquisition described in Note 2 and further analysed in Note 48, the Bank has recognised the following indemnification assets:

a) Indemnification asset – Asset Protection Scheme (APS)

The terms of the agreement relating to the acquisition of part of ex-CCB's assets and liabilities, include an asset protection scheme (APS) provided by ex-CCB, which has been recognised as an indemnification asset. Ex-CCB's obligations under the APS are guaranteed by the Republic of Cyprus ("RoC") pursuant to a guarantee agreement entered prior to the completion of the Acquisition between the Bank and RoC. The APS is a single contract providing credit protection to the Bank in respect of parts of the acquired loan portfolio ("covered assets") against future losses. There is no change in the recognition and measurement of the covered assets as a result of the APS, which are measured at amortised cost subsequent to the acquisition. Impairment on covered assets is assessed and charged in accordance with the Group's accounting policy for financial assets carried at amortised cost. There is no change in how gains and losses on the covered assets are recognised in the income statement or in other comprehensive income.

b) Indemnification asset – certain off-balance items acquired

Also, in accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses (after enforcement against cash collateral at Completion) incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Liabilities assumed which include various off-balance sheet exposures. The aforementioned indemnified off-balance sheet exposures relate to issued loan commitments and financial guarantee contracts. A respective indemnification asset with an amount equivalent to the estimated losses in respect of the indemnified off-balance sheet exposures has been recognised in the financial statements of the Bank.

3.24. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 properties or stock of 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.

The Group presents right-of-use asset under Property, plant and equipment.

3.25. Property revaluation reserve

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

3.26. Investment properties

Investment properties, comprise of properties which are not occupied by the Bank and are held for rental yields and/or capital appreciation.

Investment properties are 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 properties (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 properties that were 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 properties are made only when there is a change in use.

3.27. Stock of property

Assets are classified as stock of property held for sale if their carrying amount will be recovered principally through a sale transaction rather than through own use. This category includes properties acquired in satisfaction of debt as well as properties previously used by the Group that are currently available for sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group, in its normal course of business, repossesses properties through debt to asset swaps and/or through the foreclosure process. These properties are held either directly or by entities set up and controlled by the Bank (Special Purpose Vehicle(s) “SPV”) for liquidation optimisation purposes. The SPVs are mainly a “single property owner”. The initial measurement of the acquired property is based on the carrying amount of the debt settled.

Stock of property is initially measured at cost and subsequently is measured at the lower of cost and net realisable value (NRV). Any write down to NRV is recognised as an impairment charge 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.

Gain or loss from disposal of stock of property, is the difference between the net consideration amount and the carrying value of the asset and is recognised in the income statement when the asset is disposed.

3.28. Assets held for sale/liabilities held for sale

The Group classifies assets and liabilities 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/liability 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 and the sale is highly probable, assets and liabilities are classified as held for sale.

This policy also applies when a sale plan involves 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.

3.29. Intangible assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Other Intangible Assets
In accordance with IFRS 3, the acquirer shall recognise, separately from goodwill, the identifiable intangible assets acquired in a business combination at their acquisition date fair values. An intangible asset is recognised only if it is probable that the expected future economic benefits attributable to the asset will flow to the Bank and its cost can be measured reliably. Subsequently, amortisation is charged to profit or loss over the assets' estimated economic lives using methods that best reflect the pattern of economic benefits and is included in depreciation and amortisation.

Core deposits
As per the agreement for the acquisition of part of ex-CCB's banking operations, the Bank on-boarded some short-term deposits (e.g. current accounts) with credit balances over medium-to-long periods that carry lower interest rates compared to other medium-to-long term accounts. In such cases, an intangible asset was recognised since the Bank benefits from such lower interest expense, compared to the interest expense that would accrue to the bank should the borrowers have deposited the core amount in a term deposit.

Customer relationships (Purchased credit cards and overdrafts)
An additional intangible was recognised from the on-boarding of loans with revolving nature such as overdrafts and credit card accounts. Customers on-boarded by the Bank are expected to continue utilize their overdraft and credit card accounts in the future, creating an additional benefit to the Bank.

Transitional Service Agreement
As part of the Transaction, the Bank and ex-CCB signed a Transitional Services Agreement under which the latter provided support services to the Bank during the 15-month integration /transitional period. Although the Bank paid a fee to cover for OPEX associated with the provision of running expenses, for the transitional services per se, as well as the associated personnel costs and central support costs, the Bank paid a nominal fee of €1. The fact that only a nominal fee of €1 was paid by the Bank for these services, gave rise to an economic benefit (intangible asset) for the Bank.

The estimated useful economic lives of the above mentioned intangible assets are as follows:

Core deposits	10 years
Purchased credit cards and overdrafts	5 years
Transitional Service Agreement	15 months

Derecognition and impairment of Intangible assets

Intangible assets are derecognised from the statement of financial position at the time of disposal or when no economic benefits are expected from it.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets are reviewed for impairment when events relating to changes to circumstances indicate that the carrying value may not be recoverable. If the carrying amount exceeds the recoverable amount then the intangible assets are written down to their recoverable amount.

3.30. Share capital

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

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

Any differences emerging from a reduction of the nominal value of share capital is transferred from share capital to a reduction of share capital reserve.

3.31. Own shares reserve

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

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

Provisions for pending litigations or complaints and/or claims or cases subject to arbitration proceedings are recognised when:
(a) the Group has a present obligation (legal or constructive) as a result of a past event,
(b) an outflow of resources embodying economic benefits to settle the obligation is probable and
(c) a reliable estimate of the amount of the obligation can be made.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.33. 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 on financial instruments".

3.34. Comparatives

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

Following the Acquisition, the financial results of the Group and the Bank for the year ended 31 December 2019 are not comparable with previous financial results.

Comparative information regarding Administrative and other expenses and Impairment losses on financial instruments and non financial assets, is restated to conform with changes in the presentation of the current year. More specifically Impairment losses on non financial assets previously included under administrative and other expenses are now reclassified under Impairment losses on non financial assets.

4. IFRS 9 TRANSITION IMPACT ANALYSIS

4.1 Changes in accounting policies and impact of adoption

The Group has applied the requirements of IFRS 9 retrospectively as of 1 January 2018 by adjusting the opening statement of financial position and opening equity at 1 January 2018. As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 were recognised in the opening retained earnings and other reserves of the current period.

The implementation of IFRS 9 as of 1 January 2018, led to a net reduction in the opening balance of the equity of the Group of €33,7 million (Bank: €33,6 million), net of taxes, representing:

- An increase of €1,9 million related to classification and measurement requirements, other than impairment;
- A reduction of €38,6 million related to the new impairment requirements (expected credit losses (ECL) model); and
- An increase of €3,0 million related to deferred tax impacts.

Set out below are the aspects of the changes following the adoption of IFRS 9 with regards to classification and measurement, impairment and hedge accounting as well as an overview of the impact on opening shareholder's equity. A reconciliation between IAS 39 reported numbers as included in the year-end Financial Statements 2017 to IFRS 9 numbers as adopted from 1 January 2018 is also included below.

4. IFRS 9 TRANSITION IMPACT ANALYSIS (continued)

(a) Classification and measurement of financial instruments

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

	Note	Classification under IAS 39	New classification under IFRS 9	The Group Carrying amount IAS 39	The Group New carrying amount IFRS 9 (before ECLs)	The Bank Carrying amount IAS 39	The Bank Carrying amount IFRS 9
				€'000	€'000	€'000	€'000
Cash and balances with Central Banks	17	Loans and Receivables	Amortised cost	2.293.754	2.293.754	2.293.753	2.293.753
Placements with other banks	18	Loans and Receivables	Amortised cost	348.176	348.176	336.273	336.273
Loans and advances to customers	19	Loans and Receivables	Amortised cost	2.766.738	2.766.738	2.766.738	2.766.738
Debt securities	20	Held to maturity	Amortised cost	107.457	107.457	107.457	107.457
Debt securities	20	Held to maturity	FVOCI*	38.942	40.678	38.942	40.678
Debt securities	20	Loans and Receivables	Amortised cost	193.260	193.260	193.260	193.260
Debt securities	20	Available for sale	FVOCI	678.431	678.431	678.431	678.431
Debt securities	20	Available for sale	Amortised cost	812	724	-	-
Equity securities	22	Trading (FVTPL**)	FVOCI	450	450	450	450
Equity securities	22	Available for sale	FVOCI	6.250	6.452	6.250	6.452
Equity and other securities and collective investment units	22	Available for sale	FVTPL	23.337	23.337	2.531	2.531
Derivatives		Trading (FVTPL)	FVTPL	229	229	229	229
				6.457.836	6.459.686	6.424.314	6.426.252

*FVOCI: Fair value through other comprehensive income

**FVTPL: Fair value through profit and loss

There were no changes to the classification and measurement of financial liabilities.

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The following table provides a comprehensive overview of the impact to the total assets under changes in classification and measurement and changes in impairment allowances from IAS 39 as of 31 December 2017 to IFRS 9 as of 1 January 2018.

4. IFRS 9 TRANSITION IMPACT ANALYSIS (continued)

	Reference	IAS 39 Carrying amount (i)	Reclassifications (ii)	Remeasurements (iii)	IFRS 9 carrying amount (iv) (iv=i+ii+iii)
		2017			1 January 2018
		€'000	€'000	€'000	€'000
Fair Value through profit or Loss (FVTPL)					
EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS					
Opening balance under IAS 39		450	-	-	-
Addition: From AFS	(A)	-	23.337	-	-
Subtraction: To FVOCI	(B)	-	(450)	-	-
Closing balance under IFRS 9					23.337
DERIVATIVES					
Opening balance under IAS 39		229			
Closing balance under IFRS 9					229
Total financial assets measured at FVTPL		**679**	**22.887**	**-**	**23.566**
Fair Value through Other Comprehensive Income (FVOCI)					
EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS					
Opening balance under IAS 39		29.587	-	-	-
Remeasurement: From AFS to FV		-	-	202	-
Addition: From FVTPL	(B)	-	450	-	-
Subtraction: To FVTPL	(A)	-	(23.337)	-	-
Closing balance under IFRS 9					6.902
DEBT SECURITIES					
Opening balance under IAS 39		679.243	-	-	-
Addition: From Amortised cost	(C)	-	38.942	-	-
Subtraction: To Amortised Cost	(D)	-	(812)	-	-
Remeasurement: from amortised cost to FV		-	-	1.736	-
Remeasurement: ECL allowance		-	-	(740)	-
Remeasurement: ECL allowance (FV adjustment)		-	-	740	-
Closing balance under IFRS 9					719.109
Total financial assets measured at FVOCI		**708.830**	**15.243**	**1.938**	**726.011**
Amortised Cost					
DEBT SECURITIES					
Opening balance under IAS 39		339.659	-	-	-
Subtraction: To FVOCI	(C)	-	(38.942)	-	-
Addition: From FVOCI	(D)	-	812	-	-
Remeasurement: from FVOCI to amortised cost		-	-	(88)	-
Remeasurement: ECL allowance		-	-	(634)	-
Closing balance under IFRS 9					300.807
LOANS AND ADVANCES TO CUSTOMERS					
Opening balance under IAS 39		2.766.738	-	-	-
Remeasurement: ECL allowance		-	-	(37.931)	-
Closing balance under IFRS 9					2.728.807
CASH AND BALANCES WITH CENTRAL BANKS					
Opening balance under IAS 39		2.293.754	-	-	-
Remeasurement: ECL allowance		-	-	(8)	-
Closing balance under IFRS 9					2.293.746
PLACEMENTS WITH OTHER BANKS					

4. IFRS 9 TRANSITION IMPACT ANALYSIS (continued)

	Reference	IAS 39 Carrying amount (i)	Reclassifications (ii)	Remeasurements (iii)	IFRS 9 carrying amount (iv) (iv=i+ii+iii)
		2017			1 January 2018
		€'000	€'000	€'000	€'000
Opening balance under IAS 39		348.176	-	-	-
Remeasurement: ECL allowance		-	-	(75)	-
Closing balance under IFRS 9					348.101
Total financial assets at amortised cost		**5.748.327**	**(38.130)**	**(38.736)**	**5.671.461**
PROVISIONS TO COVER CREDIT RISK RESULTING FROM COMMITMENTS AND GUARANTEES					
Opening balance under IAS 39		(11.503)	-	-	-
Remeasurement: ECL allowance		-	-	78	-
Closing balance under IFRS 9					(11.425)
TOTAL		**6.446.333**	**-**	**(36.720)**	**6.409.613**

	IAS 39 Carrying amount (i)	IFRS 9 carrying amount (iv)
	2017	1 January 2018
	€'000	€'000
Cash and balances with Central Banks	2.293.754	2.293.746
Placements with other banks	348.176	348.101
Loans and advances to customers	2.766.738	2.728.807
Debt securities	1.018.902	1.019.916
Equity securities and collective investment units and other securities	30.037	30.239
Derivatives	229	229
Financial guarantees and loan commitments issued	11.503	11.425

The total remeasurement loss of €36,7 million, which was recognised in opening reserves, consists of an increase in allowances of €38,6 million and a positive increase of €1,9 million from reclassifications and remeasurements of financial assets.

The Group's accounting policies on the classification and measurement and impairment under IFRS 9 are set out in Note 3. The Group's accounting policies on the use of estimates and judgements under IFRS 9 are set out in Note 5.1 and 5.6.

The split of the expected credit loss (ECL) to different stages of the Group's loan portfolio is analysed in Note 19.

5. USE OF ESTIMATES AND JUDGEMENTS

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

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

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

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

5.1. Measurement of expected credit loss (ECL) allowance

IFRS 9 replaced the "incurred loss" impairment approach with a forward-looking ECL model. The measurement of the expected credit loss allowance for financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI) is an area that requires management's judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions. The assumptions used are based, to the extent possible, on data and evidence. Whenever sufficient data is not available, the impairment calculation incorporates assumptions based on management judgement.

The Group evaluates individually loans, including loans of economic groups, that are individually significant based on certain thresholds set by the Bank. It collectively assesses loans that are not individually significant and loans which were individual assessed as Stage 1.

Individually assessed loans (Stages 2 and 3)

The amount of impairment loss on the value of loans and advances to customers which are examined on an individual basis, is measured for a) financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive); b) financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows. In cases where the interest rate of the loan is variable, the original effective interest rate is measured with reference to the initial margin corresponding to the current base rate of the interest rate and the value of the current base rate at the reporting date. The estimated future cash flows are based on assumptions about a number of factors and therefore the actual losses may be different. To determine the amount of impairment loss on the value of loans and advances to customers, judgment is involved regarding the amount and timing of estimated future cash flows. The estimated future cash flows include any expected cash flows from the borrower's operations, any other sources of funds and the expected proceeds from the liquidation of collateral, where applicable. The timing of these cash flows is estimated on a case by case basis.

Collectively assessed loans (Stages 1 to 3)

For the calculation of impairment loss on a collective basis, loans and advances are grouped based on similar credit risk characteristics and appropriate models are applied that take into account the recent historical loss experience of each group with similar credit risk characteristics adjusted for current conditions using appropriate probabilities of default and loss given default. The grouping considers factors such as the customer type, industry, product, days in arrears and restructuring status. Restructured facilities are classified in a separate group.

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

To measure ECL, the Group uses: (a) Exposure at default (EAD), (b) probability of default (PD), (c) Loss given default (LGD). These calculations include estimates and the use of judgment to supplement, assess and adjust accordingly the historical information and past experience events which determine the parameters and the measurement of ECL as at the reporting date. The main assumptions used to estimate loss given default relate to the treatment of property collateral such as the time needed for collateral liquidation and the liquidation discount at the point of sale. For loans and advances assessed individually, the specifics of each case are taken into consideration in determining the property parameters. In addition, management is required to exercise significant judgement in determining staging criteria, criteria for significant increase in credit risk as well as establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL. For forward looking information refer to Note 3.17.5 of the Financial Statements for the year ended 31 December 2019.

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 29,7% including costs (2018: 27%).

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

Further improvements to the collective provisioning methodology were made in 2018 and related to the alignment of the status of the portfolio and the NPL management strategies pursuit by the Bank with the collective provision assessment by differentiating the liquidation period assumptions. The average liquidation period of the collateralised non performing collectively assessed portfolio is currently approximately 5,04 years (2018: 5,2 years) while for performing loans, the liquidation period assumption is 5 years (2018: 5 years).

During 2019 following the onboarding of ex-CCB portfolio and as part of the wider system integration project, the provisioning calculation for the ex-CCB portfolio was fully integrated within the provisioning engine of the Bank.

The Bank as part of its deleveraging strategy examines various options. Accordingly, when measuring the ECL of the NPE portfolio, the scenario of selling the exposure is considered relevant in estimating the credit loss expected to occur. It therefore considers the possibility of recovery under a scenario involving the disposal of the exposure as one of the potential strategies used in the estimation of the ECL for its NPE portfolio. The assessment of the probability of a recovery through a sale depends on the facts and circumstances as of the reference date and involves management judgement.

5. 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 loan and advances portfolio with reference date 31 December 2019, 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	27
Decrease the liquidation period by 1 year	(27)
Increase the liquidation discount (i.e. reduce the recoverable amount from collateral) by 5%	41
Decrease the liquidation discount (i.e. increase the recoverable amount from collateral) by 5%	(39)

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

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

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

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

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

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

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

5. 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 the Special Purpose Vehicles (SPVs), the principal indication of impairment is a decrease in the carrying value of the underlying properties. The carrying value is established using valuations carried out by independent qualified valuers who apply internationally accepted valuation models, use their market knowledge and professional judgement.

Any impairment of goodwill of the acquired entities affects the Group's results while any impairment of investments in subsidiaries and associated companies affects the Bank's results. Present Value of aquired in-force business (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.

5.4. Impairment of other intangibles

Other intangible assets mainly include assets acquired from the business combination with ex-CCB. The determination of the recoverable amount in the impairment assessment of other intangibles requires estimates based on prices of comparable businesses, present value or other valuation techniques, or a combination thereof, necessitating management to make subjective judgements and assumptions. The fair value of the Bank's other intangibles assets is determined by discounting estimated future net cash flows generated by the asset which require the use of different assumptions for the expectations of future cash flows, attrition rates, estimation of useful economic lives and the discount rate. Because these estimates and assumptions could result in significant differences to the amounts reported if underlying circumstances were to change, the Group considers these estimates to be critical.

5.5. Fair value of investments

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

5.6. Business Models and SPPI

IFRS 9 requires the classification of financial assets to be determined based on both business model used for managing the financial assets and whether the contractual cash flows generated by an asset constitute solely payments of principal and interest (SPPI).

The assessment of the business model requires judgement based on the facts and circumstances at the date of the assessment. The Bank has considered both quantitative and qualitative factors in its assessment such as how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's management as well as the frequency, volume and timing of sales in prior periods.

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

If a financial asset is held in either a "hold to collect" or a "hold to collect and sell" business model, then an assessment to determine whether the contractual cash flows are SPPI is required. In making this assessment the Group exercises judgement in considering whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and profit margin.

5.7. Negative goodwill

The Group accounted for the acquisition of a business from CCB using the acquisition method. In accordance with IFRS 3, all identifiable assets and liabilities acquired were measured at their fair value at the time of acquisition. These fair values also represented the amounts upon initial consolidation. The difference between the purchase price and the balance of assets and liabilities acquired and measured at fair value was recognised as negative goodwill ("gain on bargain purchase" as per IFRS 3) in the income statement for the year ended 31 December 2018, and directly increased the equity of the Bank. For the determination of the fair value of the identifiable assets and assumed liabilities the Bank used the services of an independent international firm (Refer to Note 48).

5.8. Indemnification Asset

The Bank identified and recognised an indemnification asset relating to the Asset Protection Scheme Agreement (APS) provided by the seller (ex-CCB) in the business combination and guaranteed by the Republic of Cyprus (RoC).

The Bank determined that the APS is an indemnification asset in the scope of IFRS 3 because:

- The Bank acquired a business from CCB in accordance with IFRS 3 and it is therefore in the scope of IFRS 3;

- The APS meets the definition of an "indemnification asset" in IFRS 3 which occurs when the seller in a business combination contractually indemnifies the acquirer for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability. This was concluded on the following basis:
  a) The APS is a single contract entered into between the Bank and CCB, providing credit protection in respect of a portfolio of loans acquired as part of the Acquisition. This contract is guaranteed with a Deed of Guarantee entered into between the Bank and the RoC. The Bank has determined that the unit of account is the arrangement as a whole as the two agreements (APS and APS element of the Deed of Guarantee) are considered to be linked.
  b) The "seller" may be seen to be both the ex-CCB and the RoC as the Bank will be reimbursed by either the ex-CCB or RoC.

Upon initial recognition, the Bank recognised the indemnification asset at the acquisition date measured at its acquisition date fair value. The APS asset valuation was carried out by external independent advisors and it comprises of two elements: a) the present value of the claims to be made by the Bank to the ex-CCB or the RoC in the event of APS Losses and b) the present value of fees payable from the Bank to the RoC (admission fee and guarantee fees).

The Bank identified and recognised an indemnification asset in relation to the off-balance sheet exposures. In accordance with the Business Transfer Agreement (BTA), ex-CCB shall on demand indemnify the Bank and keep it fully indemnified against all losses (after enforcement against cash collateral at Completion) incurred by the Bank arising out of, based upon or in connection with, whether directly or indirectly, the Assumed Liabilities which include various off-balance sheet exposures. The indemnified off-balance sheet exposures relate to issued loan commitments and financial guarantee contracts.

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

At the end of each subsequent reporting period, the Group measures an indemnification asset that was recognised at the acquisition date on the same basis as the indemnified liability or asset, subject to any contractual limitations on its amount and management's assessment of the collectability of the indemnification asset. The Group derecognises the indemnification asset only when it collects the asset, sells it or otherwise loses the right to it.

The claims process entails submission by the Bank of a calculation data file with ensuing payments be made within 30 calendar days, unless there is a dispute, in which case the two parties engage their jointly appointed Verification Agent. The Monitoring Committee, a non-Executive joint Committee which oversees the application of APS, with a representative from both parties as well as an independent member and an observer from the RoC, discusses disputed items and facilitates their resolution.

5.9. Stock of property

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

Stock of property is recognised in the statement of financial position and is included in other assets. The initial measurement of an acquired property is based on the carrying amount of the debt settled,reflecting the substance of these transactions.

Subsequently to initial recognition, stock of property held for sale is 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.

The estimated selling price is determined with reference to the fair value of properties. The fair value is established based on valuations carried out by independent qualified valuers, who apply internationally accepted valuation models, use their market knowledge and professional judgement and the use of Management judgment and empirical evidence. The expected time to sell the assets as well as any potential liquidity discounts are also taken into consideration. This exercise, depending on the nature of the underlying asset and available market information involves a degree of uncertainty. The determination of costs to sell may also require professional judgement which involves a degree of uncertainly.

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

The main method used in the estimation of fair value is the comparable approach which uses prices and other relevant information generated by market transactions involving similar assets adjusted for time and property (physical and legal) characteristics. This is sometimes combined with the depreciated replacement cost method which is the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In addition to the comparable approach, the Group also utilises in certain cases the income capitalisation approach which converts future amounts (cash flows or income and expenses) to a single current (discounted) amount.

5.11. Taxation

Income Taxes

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.

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

Following the completion of the Acquisition and the Purchase Price Allocation (PPA) exercise the tax treatment of the negative goodwill had to be established. For the purposes of the preparation of the financial statements the gain has been treated as non taxable for Corporation Tax Law purposes. According to the provisions of the Cyprus Income Tax Law any amount or consideration received for goodwill, after deducting costs associated with the acquisition of that goodwill, is considered taxable. The gain recognised can not be considered as taxable goodwill. It relates exclusively to non realised profits from the revaluation of the assets and liabilities acquired, and to that extent it has been treated as non taxable. The Bank will be subject to taxation upon realization of this profit depending on its nature. The final tax treatment of this gain has been requested from the Cyprus Tax Commissioner following a ruling request that has been submitted to the Tax Commissioner's Office. In April 2020, the Commissioner accepted the Bank's position regarding the taxability of this gain.

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. As from 2018 and the introduction of IFRS9 for the measurement of financial assets and due to the absence of Tax Commissioner's guidelines for the tax treatment of impairment losses in the value of loans and advances the Bank has applied a prudent approach to their tax treatment. If the final tax treatment as this will be determined by the Tax Commissioner is different from the amounts initially recognised in the income statement, such differences will impact (positively or negatively) 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.

Other Taxes

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

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

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

5. USE OF ESTIMATES AND JUDGEMENTS (continued)

In addition to the above amendments in the VAT Law certain amendments were made to tax laws, stamp duty law and Land Registry legislation in order to broaden the definition of loan restructuring.

- With effect from 17 July 2018 loan restructurings include disposals of immovable property to third, unrelated to the debtor, parties to the extend the disposal proceeds are used to reduce loan facilities which are considered NPLs and which were also rendered NPLs on or before 31 December 2015.

- However with the above amendment and with effect from 17 July 2018 the tax exempt loan restructurings involving direct acquisition of immovable property by the Banking Institutions have been also restricted to those relating to loans which were rendered NPLs on or before 31 December 2015.

- With effect from 15 March 2019 the definition of the term debtor has been amended so as to include related to the debtor persons, as per the Law provisions (Article 33) in order to accommodate within the loan restructurings, transactions with immovable property owned solely by related to the debtor persons.

5.12. IFRS 16 "Leases"

The Group leases land and building for its branches. Identifying a lease requires significant amount of judgement based on the definition of a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In addition, where practicable/feasible, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options are exercisable by the Group companies and not the lessor. As a result, the Group applied judgement to determine whether it is reasonably certain that an extension option or termination option will be exercised which in effect impacts the determination of the lease term and hence, the determination of the discount rate and the amounts that the lease liability and right-of-use assets are recognised.

The Group also leases vehicles and equipment. For those assets, the Group applied either the short-term exemption or the low value asset exemption and such assets are not presented on the Group's balance sheet. Instead, payments are recognised on a straight line basis over the lease term.

6. INTEREST INCOME

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Interest income calculated using the effective interest method				
Financial assets at amortised cost				
Interest income from placements with other banks	**7.696**	6.884	**7.664**	6.834
Interest income from loans and advances to customers	**257.239**	177.121	**257.239**	177.136
Interest income from debt securities	**85.676**	38.082	**85.676**	38.082
Interest income from indemnification assets	**995**	-	**995**	-
Interest income from negative interest rates on customer depostis	**253**	-	**253**	-
Financial assets at fair value				
Interest income from debt securities at fair value through other comprehensive income	**12.552**	12.922	**12.552**	12.922
	364.411	235.009	**364.379**	234.974
Other interest income				
Interest income from other financial instruments	**4.695**	5.916	**4.695**	5.916
	369.106	240.925	**369.074**	240.890

Interest from loans and advances to customers include interest on the net carrying amount of impaired loans and advances amounting to €57,3 million (31 December 2018: €40,6 million).

Other interest income relates to interest on derivatives which are measured at fair value through profit and loss (FVTPL), mainly interest rate swaps and foreign currency forwards.

An amount of €253 thousand that relates to negative interest rates applied during 2019 on certain customer deposits is included in interest income.

7. INTEREST EXPENSE

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Interest expense on deposits by other banks	**795**	639	**776**	639
Interest expense on amounts due to Central Banks	**16.418**	10.052	**16.418**	10.052
Interest expense on customer deposits and other customer accounts	**45.197**	43.788	**45.209**	43.856
Interest expense on loan capital	**-**	161	**-**	161
Interest expense on other financial instruments	**5.102**	1.818	**5.102**	1.818
Interest expense on indemnification assets	**-**	286	**-**	286
Interest expense on lease liability	**339**	-	**342**	-
	67.851	56.744	**67.847**	56.812

8. FEE AND COMMISSION INCOME

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Banking fees and commissions	**61.732**	52.649	**67.409**	54.928
Commissions from insurance operations	**2.350**	1.794	**-**	-
Custodian services and asset management fees	**800**	846	**672**	846
	64.882	55.289	**68.081**	55.774

9. FEE AND COMMISSION EXPENSE

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Banking fees and commissions	**4.645**	3.521	**4.645**	3.521
Commissions for insurance operations	**2.038**	2.182	**-**	-
Other fees and commissions	**858**	822	**357**	300
	7.541	6.525	**5.002**	3.821

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

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Gain on disposal and revaluation of foreign currencies	**7.447**	9.008	**7.447**	9.008
Gain on disposal of debt securities and other financial instruments:				
Instruments at fair value through other comprehensive income	**152**	18.290	**4**	18.290
Surplus/(deficit) on revaluation of debt securities and other financial instruments:				
Other financial instruments at fair value through profit and loss	**180**	(32)	**180**	(32)
Surplus on revaluation of equity and other securities:				
Instruments at fair value through profit and loss	**2.421**	347	**1.935**	571
Changes in fair value of financial instruments in fair value hedges:				
Hedging relationship:				
CGB-Hedged item	**6.921**	5.013	**6.921**	5.013
Interest rate swap-Hedging instrument	**(6.457)**	(5.531)	**(6.457)**	(5.531)
	10.664	27.095	**10.030**	27.319

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

11. OTHER INCOME

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Dividend income	**581**	789	**6.663**	3.593
Net income from insurance operations	**18.422**	14.982	**-**	-
Gain from the disposal of stock of property held for sale	**7.975**	8.028	**7.734**	8.648
Sundry income	**6.220**	5.334	**5.216**	4.174
Net gains from revaluation of investment properties	**2.191**	-	**1.451**	-
	35.389	29.133	**21.064**	16.415

12. STAFF COSTS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Salaries	**105.516**	73.053	**100.819**	68.498
Employer's contributions for social insurance etc.	**14.113**	8.959	**13.755**	8.664
Provident Fund Contributions	**7.058**	5.548	**6.875**	5.370
	126.687	87.560	**121.449**	82.532

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 (CA) between the Cyprus Bankers Employers' Association and the Cyprus Union of Bank Employees and/or between Hellenic Bank and the Cyprus Union of Bank Employees. Under these terms of employment, a defined contributions Provident Fund scheme for employees was set up.

The rules and regulations of the Provident Fund scheme is governed by the Cyprus legislation. The employer's contribution to the Provident Fund for the Hellenic Bank legacy employees is set at 9%. The employer's contribution to the Provident Fund for the majority of the ex-CCB transferred employees who have chosen to become members of the said Fund is set at 7% and different terms also apply for those ex-CCB transferred employees who have chosen to remain members of the different Provident Fund schemes which were in operation before the transfer. The different percentage and terms of Provident Fund schemes for the ex-CCB transferred employees which derived from CA, is attributed to the fact that Hellenic Bank is required, under TUPE, to observe the terms of any CA until the date of the termination, or expiry of the CA, or until the entry into force, or application of another CA, in each case for a minimum of one year.

The Bank also offers to employees whose employment contracts are not in accordance with the terms of employment of the CA, the option to become members of multi-employer defined contribution Provident Fund schemes of their choice to which the employer's contribution is set at 9%. During 2019 an amount of €195 thousand (31 December 2018:€148 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 expense.

On 31 December 2019, the number of staff employed by the Group was 3.015 (31 December 2018: 2.840 employees) and by the Bank 2.898 (31 December 2018: 2.709 employees). Out of the total number of staff employed by the Group, 2.561 employees were permanent staff and 454 were temporary staff (31 December 2018: 2.507 permanent staff , 333 temporary staff). The average number of staff employed by the Group and the Bank for 2019 was 2.940 and 2.813 respectively (2018: Group 2.106, Bank 1.998). As part of the Acquisition as from September 2018, 1.100 employees were transferred to the Bank.

13. ADMINISTRATIVE AND OTHER EXPENSES

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Operating leases of land and buildings	**397**	4.121	**395**	4.130
Repairs and maintenance	**19.208**	10.164	**19.014**	10.006
Consultancy and other professional services fees	**19.677**	20.552	**18.888**	20.004
Regulatory Supervisory fees	**2.222**	2.326	**2.222**	2.326
Special Levy on Credit Institutions	**22.054**	12.082	**22.054**	12.082
Net release for pending litigations or complaints and/or claims (refer to Note 32)	**(255)**	(375)	**(255)**	(375)
Servicer's administration fees	**18.783**	22.041	**18.433**	21.615
Other administrative expenses	**42.073**	31.606	**40.595**	30.169
	124.159	102.517	**121.346**	99.957

Operating leases of land and buildings

Upon initial application of IFRS 16, instead of operating lease expense, the Group and the Bank has recognised depreciation and interest costs. During the year ended 31 December 2019, the depreciation cost recognised resulting from the RoU (refer to Note 25) amounted to €4,8 million for the Group and the Bank while the interest cost resulting from the lease liability (refer to Note 32) amounted to €339 thousand for the Group and €342 thousand for the Bank.

Consultancy and other professional services fees

Consultancy and other professional fees include cost of advisory services and engagement of various consultants that were appointed to assist to the Group's and the Bank's various projects.

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

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Audit of annual accounts	**1.115**	1.704	**1.003**	1.604
Assurance services	**60**	612	**25**	588
Tax advisory	**32**	54	**30**	54
Other non-audit services	**653**	310	**653**	295
	1.860	2.680	**1.711**	2.541

Servicer's administration fees

As at 31 December 2019, NPLs with a value of approximately €1,9 billion (31 December 2018: €1,8 billion) and REO portfolio with a market value of approximately €270 million (31 December 2018: €230 million) are managed by APS Cyprus since 30 June 2017 in consideration for an administration fee payable by the Bank. The administration fee paid to APS Cyprus comprises of both a fixed and a variable element. The level of fees payable to APS Cyprus varies according to the progress of collections with the majority of the fees being driven by the successful resolution of the portfolio and services provided in relation to the real estate assets owned.

14. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS AND NON FINANCIAL ASSETS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Impairment losses on loan portfolio				
12 month expected credit losses (refer to Note 19)	**18.341**	(33.883)	**18.341**	(33.883)
Lifetime expected credit losses (Stage 2) (refer to Note 19)	**3.838**	2.002	**3.838**	2.002
Lifetime expected credit losses (Stage 3) (refer to Note 19)	**(60.399)**	(34.442)	**(60.399)**	(34.442)
Net modification losses recongised	**(5.643)**	(6.114)	**(5.643)**	(6.114)
Gain on derecognition of purchased credit impaired facilities	**14.462**	4.456	**14.462**	4.456
Lifetime expected credit losses on the value of purchased credit impaired (POCI) loan portfolio (refer to Note 19)	**9.163**	7.781	**9.163**	7.781
	(20.238)	(60.200)	**(20.238)**	(60.200)
Impairment losses on financial guarantees and loan commitments issued				
12 month expected credit losses (refer to Note 32)	**5.769**	(1.275)	**5.769**	(1.275)
Lifetime expected credit losses (Stage 2) (refer to Note 32)	**662**	2	**662**	2
Lifetime expected credit losses (Stage 3) (refer to Note 32)	**(806)**	89	**(806)**	89
Lifetime expected credit losses on the value of purchased credit impaired (POCI) financial guarantees issued and loan commitments issued (refer to Note 32)	**303**	(1.114)	**303**	(1.114)
Gain on derecognition of financial guarantees and loan commitments acquired (refer to Note 32)	**6.399**	2.060	**6.399**	2.060
	12.327	(238)	**12.327**	(238)
Impairment losses on other financial assets				
12 month expected credit losses on the value of other receivables	**505**	180	**-**	-
12 month expected credit losses on the value of indemnification asset	**7**	(8)	**7**	(8)
Amortisation of indemnification asset (refer to Note 28)	**(16.048)**	(7.138)	**(16.048)**	(7.138)
12 month expected credit losses on the value of debt securities (refer to Note 20)	**(162)**	845	**(162)**	845
12 month expected credit losses on the value of Balances with Central Banks and Placements with other banks (refer to Note 17 and 18)	**363**	(679)	**352**	(649)
	(15.335)	(6.800)	**(15.851)**	(6.950)
Impairment losses on financial instruments	**(23.246)**	(67.238)	**(23.762)**	(67.388)
Impairment losses on non financial assets				
Intangible assets (refer to Note 26)	**(1.341)**	(1.214)	**(1.158)**	-
Stock of property (refer to Note 28)	**(12.146)**	(2)	**(9.153)**	(1)
	(13.487)	(1.216)	**(10.311)**	(1)
Impairment losses on the cost of investment of a subsidiary companies (refer to Note 23)	**-**	-	**(2.914)**	(182)
Total impairment losses on financial instruments and non financial assets	**(36.733)**	(68.454)	**(36.987)**	(67.571)

15. TAXATION

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Corporation tax	**(679)**	(899)	**-**	(255)
Taxes withheld at source	**(64)**	(49)	**(36)**	(26)
Deferred tax	**12.733**	1.524	**12.747**	1.590
	11.990	576	**12.711**	1.309

15. TAXATION (continued)

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 of the same year and any tax losses not utilised can be carried forward and offset against the same entity's taxable profits of the next five years. Article 13(8)(d)(i) of the Income Tax Law provides that in the case where the disposal of shares held by one company in another company member of the same group is taxed as a trading transaction then the two companies are not considered group companies for loss relief purposes.

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

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

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

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

The Group	**2019**	2018
	€'000	€'000
Group profit before taxation	**96.438**	319.477
Taxation based on applicable tax rates	**12.055**	39.935
Expenses non-tax deductible	**17.072**	11.430
Non-taxable income	**(13.222)**	(46.427)
Tax effect of losses from overseas operations	**(42)**	(36)
Recognition of tax effect of previously unrecognised tax losses	**(15.182)**	(4.060)
Change in estimates relating to prior years	**-**	56
Taxes withheld at source	**62**	50
Deferred tax	**(12.733)**	(1.524)
Tax credit for the year	**(11.990)**	(576)

The Bank	**2019**	2018
	€'000	€'000
Bank profit before taxation	**93.731**	316.600
Taxation based on applicable tax rates	**11.716**	39.575
Expenses non-tax deductible	**16.027**	10.759
Non-taxable income	**(12.477)**	(45.931)
Tax effect of losses from overseas operations	**(42)**	(36)
Recognition of tax effect of previously unrecognised tax losses	**(15.224)**	(4.112)
Taxes withheld at source	**36**	26
Deferred tax	**(12.747)**	(1.590)
Tax credit for the year	**(12.711)**	(1.309)

15. TAXATION (continued)

Taxation recognised in other comprehensive income:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Deferred taxation on property revaluation	**43**	73	**43**	69

16. BASIC AND DILUTED EARNINGS PER SHARE

	The Group		The Bank	
	2019	2018	**2019**	2018
Basic and diluted earnings per share				
Profit attributable to owners of the parent company (€ thousand)	**107.681**	319.263	**106.442**	317.909
Average number of shares in issue during the year (thousand)	**364.755**	211.213	**364.755**	211.213
Basic and diluted earnings per share (€ cent)	**29,52**	151,16	**29,18**	150,52

As at 31 December 2019 and 2018 there were no options or instruments convertible into new shares therefore basic and diluted earnings per share are the same.

The comparative of average number of shares in issue during the period is restated as per IAS 33 to account for the increase in the number of shares as a result of the capital raise in March 2019 (refer to Note 34).

17. CASH AND BALANCES WITH CENTRAL BANKS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Cash	**146.530**	151.693	**146.529**	151.691
Balances with Central Banks	**4.815.441**	4.239.751	**4.815.441**	4.239.751
	4.961.971	4.391.444	**4.961.970**	4.391.442

The cash and balances with Central Banks mainly consist of €4.816 million (31 December 2018: €4.240 million) deposit with ECB (97% of total), which is rated AAA, based on the main three rating agencies (Moody's, Fitch and S&P).

Total cash and balances with Central Banks are presented below:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Cash and balances with Central Banks	**4.830.309**	4.248.514	**4.830.308**	4.248.512
Not available for use balances with Central Banks	**131.848**	143.048	**131.848**	143.048
	4.962.157	4.391.562	**4.962.156**	4.391.560
Accumulated Expected Credit Losses	**(186)**	(118)	**(186)**	(118)
Total Cash and balances with Central Banks	**4.961.971**	4.391.444	**4.961.970**	4.391.442

17. CASH AND BALANCES WITH CENTRAL BANKS (continued)

Movement of Accumulated Expected Credit Losses:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Balance 1 January*	**118**	7	**118**	7
Movement of the year (refer to Note 14)	**68**	111	**68**	111
Closing balance	**186**	118	**186**	118

*The balance 1 January 2018 is adjusted according to the provisions of IFRS 9.

Cash and balances with Central Banks are classified as Stage 1.

18. PLACEMENTS WITH OTHER BANKS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Other placements with Banks	**264.217**	213.764	**253.249**	210.702
Interbank accounts	**131.041**	94.124	**120.494**	83.581
	395.258	307.888	**373.743**	294.283

The analysis of placements with other banks based on their remaining contractual maturity is as follows:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
On demand	**234.887**	155.739	**216.371**	143.123
Within three months	**29.058**	32.659	**26.811**	32.409
Between three months and one year	**891**	2.606	**139**	1.867
Between one year and five years	**130.422**	116.884	**130.422**	116.884
	395.258	307.888	**373.743**	294.283

On 31 December 2019, an amount of €132.966 thousand (2018: €120.266 thousand) is pledged as collateral with other banks, being common practice among financial institutions.

Amounts held with financial institutions are mainly with A+ to A- institutions.

Total placements with other banks are presented below:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Placement with other banks with original maturity less than 3 months	**262.486**	183.712	**241.743**	172.838
Other placements with other banks	**132.984**	124.819	**132.193**	122.058
	395.470	308.531	**373.936**	294.896
Accumulated Expected Credit Losses	**(212)**	(643)	**(193)**	(613)
Total Placements with other banks	**395.258**	307.888	**373.743**	294.283

18. PLACEMENTS WITH OTHER BANKS (continued)

Movement of Accumulated Expected Credit Losses:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Balance 1 January*	**643**	75	**613**	75
Movement of the year (refer to Note 14)	**(431)**	568	**(420)**	538
Closing balance	**212**	643	**193**	613

*The balance 1 January 2018 is adjusted according to the provisions of IFRS 9.

Placements with other banks are classified as Stage 1.

19. LOANS AND ADVANCES TO CUSTOMERS

Analysis of loans and advances to customers as per industry sector they operate, as at 31 December, is as follows:

	The Group and the Bank	
	2019	2018
	€'000	€'000
Trade	**723.229**	759.448
Construction and Real Estate	**791.025**	975.644
Manufacturing	**364.871**	354.648
Tourism	**445.332**	400.003
Other sectors	**823.724**	823.760
Retail	**4.096.009**	4.322.023
	7.244.190	7.635.526
Accumulated impairment losses	**(1.265.042)**	(1.352.088)
	5.979.148	6.283.438

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	
	2019	2018
	€'000	€'000
On demand	**2.067.105**	1.946.000
Within three months	**143.191**	92.691
Between three months and one year	**343.005**	220.204
Between one year and five years	**1.782.121**	946.678
Over five years	**2.908.768**	4.429.953
	7.244.190	7.635.526
Accumulated impairment losses	**(1.265.042)**	(1.352.088)
	5.979.148	6.283.438

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of loans and advances to customers (before accumulated impairment losses) between stages according to the increase in credit risk level (refer to Note 3.17.5.) as at 31 December is as follows:

	The Group and the Bank - 2019				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	Purchased credit impaired €'000	**Total €'000**
1 January 2019	4.658.290	446.881	2.103.599	426.756	**7.635.526**
Transfer from Stage 1 to Stage 2	(148.630)	148.630	-	-	**-**
Transfer from Stage 1 to Stage 3	(126.234)	-	126.234	-	**-**
Transfer from Stage 2 to Stage 3	-	(71.569)	71.569	-	**-**
Transfer from Stage 3 to Stage 2	-	51.629	(51.629)	-	**-**
Transfer from Stage 2 to Stage 1	97.743	(97.743)	-	-	**-**
Transfer from Stage 3 to Stage 1	29.097	-	(29.097)	-	**-**
Net movement during the period	(80.852)	(35.542)	(250.462)	(32.013)	**(398.869)**
Exchange difference	2.577	254	4.702	-	**7.533**
31 December 2019	4.431.991	442.540	1.974.916	394.743	**7.244.190**

	The Group and the Bank - 2018				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	Purchased credit impaired €'000	**Total €'000**
1 January 2018	1.443.067	445.647	2.166.199	-	**4.054.913**
Transfer from Stage 1 to Stage 2	(65.862)	65.862	-	-	**-**
Transfer from Stage 1 to Stage 3	(9.689)	-	9.689	-	**-**
Transfer from Stage 2 to Stage 3	-	(39.887)	39.887	-	**-**
Transfer from Stage 3 to Stage 2	-	36.808	(36.808)	-	**-**
Transfer from Stage 2 to Stage 1	79.576	(79.576)	-	-	**-**
Transfer from Stage 3 to Stage 1	266	-	(266)	-	**-**
Net movement during the period	(399.274)	17.542	(82.569)	(6.494)	**(470.795)**
Acquired portfolio	3.606.591	-	-	433.250	**4.039.841**
Exchange difference	3.615	485	7.467	-	**11.567**
31 December 2018	4.658.290	446.881	2.103.599	426.756	**7.635.526**

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

The table below discloses the accumulated impairment losses on the value of loans and advances:

	The Group and the Bank - 2019				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	Purchased credit impaired €'000	**Total €'000**
1 January	42.260	26.640	1.291.037	(7.849)	**1.352.088**
Transfer from Stage 1 to Stage 2	(1.647)	1.647	-	-	**-**
Transfer from Stage 1 to Stage 3	(3.010)	-	3.010	-	**-**
Transfer from Stage 2 to Stage 3	-	(4.494)	4.494	-	**-**
Transfer from Stage 3 to Stage 2	-	18.384	(18.384)	-	**-**
Transfer from Stage 2 to Stage 1	5.230	(5.230)	-	-	**-**
Transfer from Stage 3 to Stage 1	6.938	-	(6.938)	-	**-**
Net write-offs of loan impairment losses	(1.197)	(1.875)	(211.343)	(2.415)	**(216.830)**
Contractual interest on impaired loans	-	-	135.463	17.615	**153.078**
Unwinding of discount	-	-	(39.182)	(18.097)	**(57.279)**
(Reversal)/charge for the year (refer to Note 14)	(18.341)	(3.838)	60.399	(9.163)	**29.057**
Exchange difference	8	23	4.897	-	**4.928**
31 December 2019	30.241	31.257	1.223.453	(19.909)	**1.265.042**

	The Group and the Bank - 2018				
	Stage 1 €'000	Stage 2 €'000	Stage 3 €'000	Purchased credit impaired €'000	**Total €'000**
1 January	5.823	23.800	1.296.483	-	**1.326.106**
Transfer from Stage 1 to Stage 2	(385)	385	-	-	**-**
Transfer from Stage 1 to Stage 3	(64)	-	64	-	**-**
Transfer from Stage 2 to Stage 3	-	(3.018)	3.018	-	**-**
Transfer from Stage 3 to Stage 2	-	12.300	(12.300)	-	**-**
Transfer from Stage 2 to Stage 1	3.520	(3.520)	-	-	**-**
Transfer from Stage 3 to Stage 1	127	-	(127)	-	**-**
Net write-offs of loan impairment losses	(677)	(1.330)	(146.899)	(68)	**(148.974)**
Contractual interest on impaired loans	-	-	144.413	-	**144.413**
Unwinding of discount	-	-	(40.642)	-	**(40.642)**
Charge/(reversal) for the year (refer to Note 14)	33.883	(2.002)	34.442	(7.781)	**58.542**
Transfer from assets held for sale	-	2	7.399	-	**7.401**
Exchange difference	33	23	5.186	-	**5.242**
31 December 2018	42.260	26.640	1.291.037	(7.849)	**1.352.088**

Unwinding of discount amounting to €57,3 million (2018: €40,6 million) relates to interest income on impaired loans and advances to customers and is recognised in the income statement.

Net write-offs of loan impairment losses relating to non contractual write-offs for 2019 was €115,3 million (2018: €51,5 million).

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Risk categories

The loans and advances, are presented in risk categories based on the credit risk assessment system of the Group. The risk categories are as follows:

Grade 1 (Low Risk):
An immediate ability to repay the credit facility is assumed.

Grade 2 (Medium Risk):
The probability of indirect recovery of the credit facility is assumed.

Grade 3 (High Risk):
The debtor presents a higher risk compared to Grade 1 and 2 on the existence of direct and indirect recovery of the credit facility.

Past due loans and advances

Represent loans and advances for which the contractual interest or principal repayments are past due.

Collateral

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

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

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

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 a renegotiated repayment schedule shall be granted.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

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

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

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

For exposures to debtors classified as Retail as per the Regulation (EU) No 575/2013:
- For term loans: if the past due amount of each exposure is over €500 the exposure shall be classified as material.
- For overdrafts/current accounts: if the past due amount or the excess of the exposure exceeds €500 or 10% of the limit approved by the Bank the exposure shall be classified as material.

For exposures to debtors not classified as Retail as per the Regulation (EU) No 575/2013:
- If the total excesses/past dues of debtors exceed €1.000 or exceed 10% of their total on balance sheet exposures then all the exposures of the debtor shall be classified as material.

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

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

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

The forbearance classification shall be discontinued when all of the following conditions are met:
(a) the contract is considered as performing, including if it has been reclassified from the non-performing category after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing,
(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.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Based on the above categories, loans and advances to customers are presented below:

	The Group and the Bank - 2019				
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Grade 1 (low risk)	4.295.852	184.224	24.760	73.574	**4.578.410**
Grade 2 (medium risk)	127.516	209.712	557.972	221.335	**1.116.535**
Grade 3 (high risk)	8.623	48.604	1.392.184	99.834	**1.549.245**
Gross amount	4.431.991	442.540	1.974.916	394.743	**7.244.190**
Accumulated Impairment losses	(30.241)	(31.257)	(1.223.453)	19.909	**(1.265.042)**
Carrying amount	4.401.750	411.283	751.463	414.652	**5.979.148**
Past due exposures					
0+ up to 30 days	155.067	8.319	14.971	27.771	**206.128**
30+ up to 60 days	8.555	78.558	25.777	20.561	**133.451**
60+ up to 90 days	4.850	32.957	13.631	12.948	**64.386**
90 days+	451	2.023	1.703.462	223.683	**1.929.619**
Gross amount	168.923	121.857	1.757.841	284.963	**2.333.584**
Accumulated Impairment losses	(4.601)	(11.276)	(1.151.027)	(2.503)	**(1.169.407)**
Carrying amount	164.322	110.581	606.814	282.460	**1.164.177**
Forborne exposures					
Carrying amount	100.759	128.936	381.517	281.171	**892.383**

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

	The Group and the Bank - 2018				
	Stage 1	Stage 2	Stage 3	Purchased credit impaired	**Total**
	€'000	€'000	€'000	€'000	**€'000**
Grade 1 (low risk)	4.499.508	223.435	24.768	52.541	**4.800.252**
Grade 2 (medium risk)	152.447	214.192	469.117	3.414	**839.170**
Grade 3 (high risk)	6.335	9.254	1.609.714	370.801	**1.996.104**
Gross amount	4.658.290	446.881	2.103.599	426.756	**7.635.526**
Accumulated Impairment losses	(42.260)	(26.640)	(1.291.037)	7.849	**(1.352.088)**
Carrying amount	4.616.030	420.241	812.562	434.605	**6.283.438**
Past due exposures					
0+ up to 30 days	240.794	40.207	12.619	40.901	**334.521**
30+ up to 60 days	24.036	59.116	30.085	29.783	**143.020**
60+ up to 90 days	9.223	26.585	12.343	22.486	**70.637**
90 days+	152	1.241	1.793.794	193.315	**1.988.502**
Gross amount	274.205	127.149	1.848.841	286.485	**2.536.680**
Accumulated Impairment losses	(12.963)	(9.324)	(1.215.302)	(2.610)	**(1.240.199)**
Carrying amount	261.242	117.825	633.539	283.875	**1.296.481**
Forborne exposures					
Carrying amount	322.109	178.154	411.664	301.465	**1.213.392**

Movement of carrying amount of loans and advances classified as Stage 3 and purchased credit impaired (POCI):

	The Group and the Bank - 2019		
	Stage 3	Purchased credit impaired	**Total**
	€'000	€'000	**€'000**
1 January 2019	812.562	434.605	**1.247.167**
Transfer from Stage 1 to Stage 3	123.224	-	**123.224**
Transfer from Stage 2 to Stage 3	67.075	-	**67.075**
Transfer from Stage 3 to Stage 2	(33.245)	-	**(33.245)**
Transfer from Stage 3 to Stage 1	(22.159)	-	**(22.159)**
Net movement during the year	(195.799)	(19.953)	**(215.752)**
Exchange difference	(195)	-	**(195)**
31 December 2019	751.463	414.652	**1.166.115**

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

	The Group and the Bank - 2018		
	Stage 3	Purchased credit impaired	**Total**
	€'000	€'000	**€'000**
1 January 2018	849.905	-	**849.905**
Adjustment on initial application of IFRS 9	19.874	-	**19.874**
Restated balance at 1 January 2018	869.779	-	**869.779**
Transfer from Stage 1 to Stage 3	9.625	-	**9.625**
Transfer from Stage 2 to Stage 3	36.869	-	**36.869**
Transfer from Stage 3 to Stage 2	(24.508)	-	**(24.508)**
Transfer from Stage 3 to Stage 1	(139)	-	**(139)**
Acquired portfolio	-	433.250	**433.250**
Net movement during the year	(81.345)	1.355	**(79.990)**
Exchange difference	2.281	-	**2.281**
31 December 2018	812.562	434.605	**1.247.167**

The value of collaterals of loans and advances classified as Stage 3 and purchased credit impaired is analysed as below:

	The Group and the Bank	
	2019	2018
	€'000	€'000
Residential	**1.413.141**	1.150.119
Commercial	**562.381**	671.311
Land	**659.900**	749.681
Property collaterals	**2.635.422**	2.571.111
Other	**53.854**	102.282
	2.689.276	2.673.393

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Loans and advances with forbearance measures are analysed, by industry sector, below:

	The Group and the Bank			
	Gross Loans		Carrying amount	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Trade	**129.626**	150.851	**87.859**	103.555
Construction and Real Estate	**373.837**	477.064	**212.575**	265.445
Manufacturing	**52.247**	66.271	**31.373**	45.673
Tourism	**39.510**	44.450	**27.207**	30.757
Other sectors	**117.190**	150.447	**85.790**	111.321
Retail	**512.241**	723.375	**447.579**	656.641
	1.224.651	1.612.458	**892.383**	1.213.392

The value of collaterals of loans and advances with forbearance measures is analysed below:

	The Group and the Bank	
	2019	2018
	€'000	€'000
Residential	**984.677**	1.165.196
Commercial	**444.611**	582.402
Land	**513.372**	640.699
Property collaterals	**1.942.660**	2.388.297
Other	**55.595**	84.354
	1.998.255	2.472.651

Non-Performing Exposures (NPEs)

The non performing exposures portfolio of the Group and the Bank as at 31 December 2019, amounted to €2.276 million (31 December 2018: €2.474 million).

The ratio of NPEs to gross loans was 31,4% (31 December 2018: 32,4%). The gross book value of NPEs include contractual interest not recognised in the income statement.

The NPEs provision coverage was 55,6% as at 31 December 2019 (31 December 2018: 54,6%).

EBA Guidelines on disclosure of non- performing and forborne exposures

On 17 December 2018, the European Banking Authority (EBA) published its final Guidelines on disclosure of non- performing and forborne exposures (EBA/GL/2018/10), which have been developed in accordance with Article 16 of Regulation (EU) No 1093/2010 and represent another step forward in the implementation of the 2017 Council Action Plan to tackle non-performing loans in the EU.

The Guidelines set enhanced disclosure requirements and uniform disclosure formats applicable to credit institutions' public disclosure of information regarding non-performing exposures, forborne exposures and foreclosed assets, and aim at fostering transparency, providing meaningful information to market participants on the quality of credit institutions' assets, and addressing any potential asymmetries of information in a consistent and comparable way. In addition, for those credit institutions with a gross NPL ratio at or above 5%, the Guidelines aim at providing a better insight of the distribution and features of the institutions' problematic assets, the quality and value of the collaterals backing them and the efficiency of the institution's recovery function.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

The disclosures as required by the referred Guidelines are reported in Pillar III report of the Group. For further details on Pillar III disclosures refer to Note 49.6.4.

Estia Scheme

Purpose of the Estia Scheme

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

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

According to the provisions of the Scheme, eligible borrowers will receive a subsidy from the Government of the Republic of Cyprus, for restructured loans that are secured by eligible primary residence, provided that their contractual obligations are fully met. More specifically, at the end of each year the Government will pay the subsidy to the banks, through the Competent Agency, which is the equivalent of one third (1/3) of the total monthly loan instalments of the restructured loans that are secured by primary residence. The subsidy will be granted under the precondition that two thirds (2/3) of the total monthly loan installments are successfully paid by the borrowers to the banks.

The Scheme is applicable for non-performing credit facilities, regardless of the denominated currency, that fulfill specific requirements, terms and conditions and socioeconomic criteria as at 30 September 2017, up to the actual point in time of submission of the Estia applications.

Progress / Status

On 3 December 2018, the European Commission announced the approval of the Estia scheme under State Aid Rules. The Estia Scheme was published in the Government Gazette on 12 July 2019 and took effect on 2 September 2019.

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

Details of the Scheme can be found on the Bank’s site www.hellenicbank.com/portalserver/hb-en-portal/en/personal-banking/borrow/help-me-with/estia.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio according to the counterparty sector as at 31 December 2019

	Total loan portfolio				Cumulative Impairment losses			
		of which non-performing exposures	of which exposures with forbearance measures			of which non-performing exposures	of which exposures with forbearance measures	
				of which on non-performing exposures				of which on non-performing exposures
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances*	**7.238.758**	**2.275.838**	**1.224.651**	**926.317**	**1.265.042**	**1.229.650**	**332.268**	**331.131**
General Governments	4.781	351	351	351	159	110	110	110
Other financial corporations	77.751	29.661	24.314	21.394	14.247	13.052	6.946	6.622
Non-financial corporations	2.922.723	1.144.640	656.607	528.339	725.061	698.550	253.783	244.307
of which: Small and Medium-sized enterprises	2.651.895	1.127.624	632.676	527.705	704.471	685.090	249.671	244.163
of which: Commercial real estate**	2.136.152	864.211	552.677	436.594	511.998	490.857	197.549	187.484
By sector								
1. Construction	500.828	368.481			237.283			
2. Wholesale and retail trade	671.030	300.348			209.458			
3. Real estate activities	263.206	130.982			58.793			
4. Accommodation and food service activities	497.018	109.648			71.255			
5. Manufacturing	352.433	116.639			81.329			
6. Other sectors	638.208	118.542			66.943			
Households	4.233.503	1.101.186	543.379	376.233	525.575	517.938	71.429	80.092
of which: Residential mortgage loans	2.901.119	629.741	380.762	256.441	205.520	204.696	34.464	40.143
of which: Credit for consumption	583.541	206.528	50.680	34.780	148.262	144.701	5.334	6.622

*Excluding loans and advances to central banks and credit institutions.
**As from first quarter 2018 it includes loans and advances that are collateralised by immovable property other than residential property.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio according to the counterparty sector as at 31 December 2018

	Total loan portfolio				Cumulative Impairment losses			
		of which non-performing exposures	of which exposures with forbearance measures			of which non-performing exposures	of which exposures with forbearance measures	
				of which on non-performing exposures				of which on non-performing exposures
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Loans and advances*	**7.630.107**	**2.474.388**	**1.612.458**	**1.064.964**	**1.352.088**	**1.297.492**	**399.066**	**387.835**
General Governments	4.827	348	645	276	48	2	41	-
Other financial corporations	74.273	28.247	22.470	19.496	15.925	15.233	9.023	8.863
Non-financial corporations	3.064.958	1.372.165	815.271	650.780	820.661	794.631	311.520	304.295
of which: Small and Medium-sized enterprises	2.648.708	1.321.826	771.239	623.307	799.062	780.592	308.845	302.739
of which: Commercial real estate	2.383.647	1.131.409	719.222	570.259	637.486	619.616	261.634	255.188
By sector								
1. Construction	642.020	477.089			291.138			
2. Wholesale and retail trade	698.891	333.906			226.860			
3. Real estate activities	307.253	161.091			73.151			
4. Accommodation and food service activities	447.718	124.081			71.213			
5. Manufacturing	340.529	129.256			80.153			
6. Other sectors	628.547	146.742			78.146			
Households	4.486.049	1.073.628	774.072	394.412	515.454	487.626	78.482	74.677
of which: Residential mortgage loans	3.112.540	634.896	566.908	283.671	212.644	201.875	40.312	38.385
of which: Credit for consumption	605.995	191.604	73.364	34.938	142.648	132.617	5.522	4.986

*Excluding loans and advances to central banks and credit institutions.
**As from first quarter 2018 it includes loans and advances that are collateralised by immovable property other than residential property.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio* on the basis of loan origination date as at 31 December 2019

	Total loan portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Loan origination date**	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	515.840	1.020	2.825	286.013	283	2.018	18.337	-	153	211.490	737	654
1 - 2 years	592.622	12.380	1.561	296.864	1.631	1.443	1.194	-	1	294.564	10.749	117
2 - 3 years	573.197	32.948	7.120	276.612	11.647	5.077	12.516	108	36	284.069	21.193	2.007
3 - 5 years	927.262	204.695	25.776	299.979	58.740	14.110	3.331	-	5	623.952	145.955	11.661
5 - 7 years	382.926	99.524	39.366	87.789	45.007	26.296	711	1	10	294.426	54.516	13.060
7 - 10 years	1.738.147	577.685	299.511	499.418	304.447	188.536	8.839	2.860	857	1.229.890	270.378	110.118
Over 10 years	2.503.983	1.347.235	888.724	1.176.048	722.885	487.581	32.823	26.692	13.185	1.295.112	597.658	387.958
Total	7.233.977	2.275.487	1.264.883	2.922.723	1.144.640	725.061	77.751	29.661	14.247	4.233.503	1.101.186	525.575

*Excluding loans and advances to general governments.
**Loan origination date is defined as the contractual loan origination date for each account. For restructured loans the origination date was derived based on the origination date of the original loan that was restructured. For the acquired portfolio as a result of the Acquisition the origination date is defined as the origination date of the loan as of the Acquisition date.

19. LOANS AND ADVANCES TO CUSTOMERS (continued)

Analysis of loan portfolio* on the basis of loan origination date as at 31 December 2018

	Total loan portfolio			Loans to non-financial corporations			Loans to other financial corporations			Loans to households		
Loan origination date**	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses	Total exposures	Non-performing exposures	Cumulative Impairment losses
	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
Within 1 year	615.120	23.296	3.793	309.335	2.391	2.093	1.394	-	2	304.391	20.905	1.698
1 - 2 years	670.671	28.176	8.914	316.261	13.100	6.413	25.957	5	169	328.453	15.071	2.332
2 - 3 years	576.538	95.339	7.279	174.201	17.419	2.743	2.289	-	5	400.048	77.920	4.531
3 - 5 years	596.932	102.867	21.269	200.298	39.715	14.720	2.546	5	13	394.088	63.147	6.536
5 - 7 years	837.259	211.604	91.600	198.461	109.144	61.022	2.713	922	230	636.085	101.538	30.348
7 - 10 years	1.920.307	667.495	355.106	612.189	385.123	225.478	9.450	3.713	2.685	1.298.668	278.659	126.943
Over 10 years	2.408.453	1.345.263	864.079	1.254.213	805.273	508.192	29.924	23.602	12.821	1.124.316	516.388	343.066
Total	7.625.280	2.474.040	1.352.040	3.064.958	1.372.165	820.661	74.273	28.247	15.925	4.486.049	1.073.628	515.454

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

20. DEBT SECURITIES

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Securities classified at fair value through other comprehensive income				
Listed	**496.062**	593.035	**495.575**	592.236
Accumulated expected credit losses	**(43)**	(85)	**(43)**	(85)
	496.019	592.950	**495.532**	592.151
Securities classified at amortised cost				
Listed	**3.804.561**	3.933.922	**3.804.561**	3.933.922
Accumulated expected credit losses	**(648)**	(444)	**(648)**	(444)
	3.803.913	3.933.478	**3.803.913**	3.933.478
	4.299.932	4.526.428	**4.299.445**	4.525.629

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

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Within three months	**168.420**	89.536	**168.420**	89.536
Between three months and one year	**953.656**	1.275.586	**953.656**	1.275.586
Between one year and five years	**2.818.987**	2.612.692	**2.818.500**	2.612.354
Over five years	**358.869**	548.614	**358.869**	548.153
	4.299.932	4.526.428	**4.299.445**	4.525.629

Analysis of Debt securities by sector:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Concentration by sector:				
Governments	**3.037.046**	4.148.844	**3.036.559**	4.148.045
Banks	**983.869**	131.411	**983.869**	131.411
Other sectors	**279.017**	246.173	**279.017**	246.173
	4.299.932	4.526.428	**4.299.445**	4.525.629

As at 31 December 2019 the Group's exposure in Cyprus Government Bonds amounted to €3,0 billion (31 December 2018: €4,1billion), rated at Baa3 Moody's equivalent credit rating (2018: Baa3), as this is defined in Article 269 of the Regulation (EU) No 575/2013.

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.

Debt securities are classified as Stage 1.

20. DEBT SECURITIES (continued)

Movement of Accumulated Expected Credit Losses:

	The Group and the Bank	
	2019	2018
	€'000	€'000
Balance 1 January*	**529**	1.374
Movement of the year (refer to Note 14)	**162**	(845)
Closing Balance	**691**	529

*The balance 1 January 2018 is adjusted according to the provisions of IFRS 9.

21. HEDGE ACCOUNTING

The Group enters into fair value hedges, using interest rate swaps, in order to protect itself against movements in the fair value of fixed-rate financial instruments due to movements in market interest rates. The Bank designates these interest rate swaps as hedging instruments in respect of interest rate risk in fair value hedges. The hedged instruments are certain fixed rate Cyprus Government Bonds (CGBs) that were onboarded as a result of the Acquisition, in 2018.

The amounts relating to items designated as hedging instruments, hedged items and hedge ineffectiveness were as follows:

21. HEDGE ACCOUNTING (continued)

2019	Notional amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for 2019	Ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
		Asset	Liabilities				
	€'000	€'000	€'000		€'000	€'000	
Interest rate risk							
Interest rate swaps - hedge of Cyprus Government Bonds	1.190.000	-	13.377	Other liabilities (Derivatives)	(6.457)	465	Net gains on disposal and revaluation of foreign currencies and financial instruments

2019	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge effectiveness
	Asset	Liabilities			
	€'000	€'000	€'000		€'000
The amounts relating to items designated as hedged items were as follows:					
Cyprus Government Bonds - interest rate risk of coupons	1.238.194	-	11.934	Debt securities	6.291

21. HEDGE ACCOUNTING (continued)

2018	Notional amount	Carrying amount		Line item in the statement of financial position where the hedging instrument is included	Change in fair value used for calculating hedge ineffectiveness for 2018	Ineffectiveness recognised in profit or loss	Line item in profit or loss that includes hedge ineffectiveness
		Asset	Liabilities				
	€'000	€'000	€'000		€'000	€'000	
Interest rate risk							
Interest rate swaps - hedge of Cyprus Government Bonds	1.190.000	-	6.558	Other liabilities (Derivatives)	(5.531)	(519)	Net gains on disposal and revaluation of foreign currencies and financial instruments

2018	Carrying amount		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedged item	Line item in the statement of financial position in which the hedged item is included	Change in value used for calculating hedge effectiveness
	Asset	Liabilities			
	€'000	€'000	€'000		€'000
The amounts relating to items designated as hedged items were as follows:					
Cyprus Government Bonds - interest rate risk of coupons	1.238.293	-	5.013	Debt securities	5.013

22. EQUITY AND OTHER SECURITIES AND COLLECTIVE INVESTMENT UNITS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Equity and other secuirities at fair value through profit or loss				
Non listed securities	**6.571**	4.527	**6.571**	4.527
Collective investment units	**28.242**	23.141	**-**	-
	34.813	27.668	**6.571**	4.527
Equity securities classified at fair value through other comprehensive income				-
Listed securities	**1.386**	1.387	**1.386**	1.387
Non listed securities	**6.179**	5.583	**6.179**	5.583
	7.565	6.970	**7.565**	6.970
	42.378	34.638	**14.136**	11.497

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Concentration by sector:				
Equity and other secuirities at fair value through profit or loss				
Other financial service activities, except insurance and pension funding	**6.571**	4.527	**6.571**	4.527
Collective investment units	**28.242**	23.141	**-**	-
	34.813	27.668	**6.571**	4.527
Equity securities classified at fair value through other comprehensive income				
Other financial service activities, except insurance and pension funding	**6.178**	5.583	**6.178**	5.583
Manufacture of bakery and farinaceous products	**1.038**	1.029	**1.038**	1.029
Manufacture of cement, lime and plaster	**3**	4	**3**	4
Hotels and similar accomodation	**341**	350	**341**	350
Other specialised wholesale	**5**	4	**5**	4
	7.565	6.970	**7.565**	6.970
	42.378	34.638	**14.136**	11.497

Unlisted equity securities classified at fair value through other comprehensive income include the Bank's investment in JCC Payment Systems Ltd of €5.959 thousand (2018: €5.363 thousand). In determining the fair value of the Bank's investment in the unlisted company JCC Payment Systems Ltd the Group takes into account, amongst others, the net asset position of the entity.

Equity and other secuirities at fair value through profit or loss include the Bank's stakeholding of Series C Visa Inc. shares convertible into Class A Common Stock which are valued based on the stock price of the underlying shares on each reporting date. Due to the conversion of the shares taking place on the twelfth anniversary of the closing date of the agreement (21 June 2016) after settling any unresolved and outstanding cover claims, it was considered appropriate to apply a haircut of 50% on the observable value of the shares. As at 31 December 2019, the value of the shares was estimated at €6.571 thousand (2018: €4.527 thousand).

During 2019, the Group continued investing in collective investments units which are shares/units in well diversified investments funds.

23. 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:

					The Bank	
	Line of Business	Country of operation and registration	Ownership %	Number of shares	**2019 €'000**	2018 €'000
Hellenic Bank (Investments) Ltd	Investment banking, asset management and brokerage (not active)	Cyprus	100	3.750.000	**4.127**	4.127
Hellenic Bank Trust and Finance Corporation Ltd	Financing Services	Cyprus	100	50.000	**94**	94
Pancyprian Insurance Ltd	General Insurance	Cyprus	99,96	15.700.000	**32.423**	32.423
Hellenic Alico Life Insurance Company Ltd	Life Insurance	Cyprus	100/ 72,50[1]	1.000.000/ 725.000[1]	**7.179**	1.239
Hellenic Insurance Agency Ltd	Insurance Intermediation	Cyprus	100	50.000	**86**	86
Idith Holdings Ltd	Investment holdings	Cyprus	100	110	**4.644**	4.828
Ezmero Holdings Ltd	Investment holdings	Cyprus	100	130/110[1]	**13.893**	13.707
Alira Holdings Ltd	Investment holdings	Cyprus	100	110	**4.035**	4.035
Krolo Holdings Ltd	Investment holdings	Cyprus	100	140/120[1]	**4.326**	4.706
Litt Holdings Ltd	Investment holdings	Cyprus	100	140[1]	**-**	7.009
Dallastia Holdings Ltd	Investment holdings	Cyprus	100	110	**4.645**	5.000
Anolia Industrial Ltd	Investment holdings	Cyprus	100	150/130[1]	**3.796**	4.626
Abverma Holdings Ltd	Investment holdings	Cyprus	100	110/100[1]	**4.484**	0,100
Chrisblo Holdings Ltd	Investment holdings	Cyprus	100	150	**3.043**	3.568
Trishpo Holdings Ltd	Investment holdings	Cyprus	100	110[1]	**-**	2.147
Balmacro Holdings Ltd	Investment holdings	Cyprus	100	100[1]	**-**	0,100
Boulmo Holdings Ltd	Investment holdings	Cyprus	100	110/100[1]	**2.323**	0,100
Drypto Holdings Ltd	Investment holdings	Cyprus	100	120/100[1]	**14.443**	0,100
					103.541	87.595

1. These figures relate to the year ended 31 December 2018.

On 28 November 2016 the Board of Directors of Hellenic Bank (Investments) Ltd decided to discontinue all of its business activities, which primarily related to retail brokerage services.

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). During 2019, the whole stake holding in Litt Holdings Ltd, Trishpo Holdings Ltd and Balmacro Holdings Ltd share capital was disposed for the aggregate consideration of €14,2 million, all settled in cash. In addition, during 2019 there was an increase in the investment in some of the SPVs via the issue of new shares.

The cost of investment of the SPVs was assessed at year end for impairment based on the fair valuation of the property held by each entity and an impairment loss on the cost of investment of the SPVs of €2.914 thousand was recognised in the income statement for the year (31 December 2018: nil).

23. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

Also the cost of investments in the remaining subsidiary companies was assessed at year end for impairment and no impairment was recognised in the income statement. As at 31 December 2018 the assessment for impairment of the investment in the subsidiary companies resulted in an impairment loss of €182 thousand for the investment in Hellenic Bank (Investments) Ltd.

23. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

The following analysis refers to intercompany balances between the Bank and its subsidiary companies:

	Deposits 2019 €'000	Dividend paid 2019 €'000	Interest received 2019 €'000	Rent paid 2019 €'000	Fees and Commission paid 2019 €'000	Other assets 2019 €'000	Other liabilities 2019 €'000	Insurance premiums 2019 €'000	Rent received 2019 €'000
Hellenic Bank (Investments) Ltd	3.740	-	2	-	-	-	-	-	-
Hellenic Bank Trust and Finance Corporation Ltd	819	-	-	-	-	-	-	-	-
Pancyprian Insurance Ltd	6.192	16	8	53	1.081	273	186	8.239	28
Hellenic Alico Life Insurance Company Ltd	2.303	1.530	2	39	4.614	468	45	1.339	-
Hellenic Insurance Agency Ltd	206	3	-	-	-	4	-	-	-
Idith Holdings Ltd	97	744	-	-	-	-	-	-	-
Ezmero Holdings Ltd	69	-	-	-	-	-	-	-	-
Alira Holdings Ltd	97	585	-	-	-	-	-	-	-
Krolo Holdings Ltd	15	-	-	-	-	-	-	-	-
Dallastia Holdings Ltd	32	484	-	-	-	-	-	-	4
Anolia Industrial Ltd	31	-	-	-	-	-	-	-	-
Abverma Holdings Ltd	85	-	-	-	-	-	-	-	-
Chrisblo Holdings Ltd	535	-	-	-	-	-	-	-	-
Boulmo Holdings Ltd	68	125	-	-	-	-	-	-	-
Drypto Holdings Ltd	21	-	-	-	-	-	-	-	-
	14.310	**3.487**	**12**	**92**	**5.695**	**745**	**231**	**9.578**	**32**

23. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

	Deposits 2018 €'000	Dividend paid 2018 €'000	Interest received 2018 €'000	Interest paid 2018 €'000	Rent paid 2018 €'000	Fees and Commission paid 2018 €'000	Other assets 2018 €'000	Other liabilities 2018 €'000	Insurance premiums 2018 €'000	Rent received 2018 €'000
Hellenic Bank (Investments) Ltd	3.511	-	4	-	-	-	-	-	-	-
Hellenic Bank Trust and Finance Corporation Ltd	825	-	-	-	-	-	-	-	-	-
Pancyprian Insurance Ltd	6.567	2.119	43	-	48	757	481	348	13.638	28
Hellenic Alico Life Insurance Company Ltd	4.466	-	22	14	20	1.522	3	20	1.339	-
Hellenic Insurance Agency Ltd	209	5	-	-	-	-	6	-	-	-
Idith Holdings Ltd	553	-	-	-	-	-	-	-	-	-
Ezmero Holdings Ltd	3	-	-	-	-	-	-	-	-	-
Alira Holdings Ltd	453	-	-	-	-	-	-	-	-	-
Krolo Holdings Ltd	19	-	-	-	-	-	-	-	-	-
Litt Holdings Ltd	2	-	-	-	-	-	-	-	-	-
Dallastia Holdings Ltd	216	-	-	-	-	-	-	-	-	-
Anolia Industrial Ltd	1	-	-	-	-	-	-	-	-	-
Chrisblo Holdings Ltd	4	-	-	-	-	-	-	-	-	-
Trishpo Holdings Ltd	35	-	-	-	-	-	-	-	-	-
	16.864	**2.124**	**69**	**14**	**68**	**2.279**	**490**	**368**	**14.977**	**28**

23. INVESTMENTS IN SUBSIDIARY COMPANIES (continued)

Further to the Bank's announcement dated 29 October 2019, the Bank announced that on 23 December 2019 it completed the acquisition of the entire participation interest of MetLife Services Cyprus Limited, equal to 27,5%, in the share capital of Hellenic Alico Life Insurance Company Limited. Following the completion of the acquisition, the Bank owns 100% of the share capital of Hellenic Alico Life Insurance Company Limited.

The consideration for the sale amounted to €5.940 thousand settled in cash and the transaction was in line with the Bank's continuous strategy to grow its fee income through transforming and repositioning its insurance subsidiary companies in the Cypriot market.

As of 10 March 2020 Hellenic Alico Life Insurance Company Ltd, has been renamed to Hellenic Life Insurance Company Limited.

As at 31 December 2018, Hellenic Alico Life Insurance Company Ltd capital structure was as follows:

	%	Number of shares
Hellenic Bank Public Company Limited	72,50	725.000
MetLife Services Cyprus Limited (previously American Life Insurance Company (Cy) Limited)	27,50	275.000
	100,00	**1.000.000**

There are no restrictions on the Bank's ability to access or use assets, and settle liabilities of the Group.

24. INVESTMENT IN ASSOCIATE COMPANY

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

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

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

24. INVESTMENT IN ASSOCIATE COMPANY (continued)

As at 31 December 2019, NPLs with a value of approximately €1,9 billion (31 December 2018: €1,8 billion) and REO portfolio with a market value of approximately €270 million (31 December 2018: €230 million) are managed by APS Cyprus in consideration for an administration fee payable by the Bank. The administration fee paid to APS Cyprus comprises of both a fixed and a variable element. The level of fees payable to APS Cyprus varies according to the progress of collections with the majority of the fees being driven by the successful resolution of the portfolio and services provided in relation to the real estate assets owned.

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

For the calculation of the fair value of deferred consideration a discount rate of 2% p.a. was used. As at 31 December 2019 the carrying amount of the deferred consideration was €4.667 thousand (31 December 2018: €5.546 thousand).

Movement in the investment in associate company:

	The Group	
	2019	2018
	€'000	€'000
1 January	**8.997**	7.600
Dividend paid	**(2.695)**	(774)
Share of profit of investment in associate	**1.524**	2.171
31 December	**7.826**	8.997

The financial statements of the associate company used in applying the equity method are as of the date that is the same with the Bank's reporting date.

The main financial highlights of the associate company are presented below:

	2019	2018
	€'000	€'000
Total assets	**23.581**	25.264
Total liabilities	**(7.609)**	(6.902)
Net assets	**15.972**	18.362

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

	31 December 2019	31 December 2018
	€'000	€'000
Servicer's administration fees (incl. VAT)	**(18.783)**	(22.041)
License to use services	**483**	471
Provision of support services to servicer	**-**	143

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

24. INVESTMENT IN ASSOCIATE COMPANY (continued)

Balances between associate company and the Group:

	31 December 2019 €'000	31 December 2018 €'000
Amounts receivable		
Deferred cash consideration receivable by the Bank	**4.667**	5.546
Other amounts receivable by the Bank (incl. VAT)	**-**	143
	4.667	5.689
Amounts payable		
Deposits held with the Bank	**(3.790)**	(4.936)
Servicer's administration fees payable by the Group (incl. VAT)	**(5.664)**	(5.550)
	(9.454)	(10.486)
Contingent liabilities in the form of unutilised limits	**(500)**	(504)

There are no restrictions on the ability of the associate company to transfer funds to the Bank in the form of cash dividends, or to repay loans made by the Bank.

As at 31 December 2019 there are no unrecognised share of losses of the associate company.

25. PROPERTY, PLANT AND EQUIPMENT

The Group	Land and buildings 2019 €'000	Right of use asset 2019 €'000	Plant and equipment 2019 €'000	**Total 2019 €'000**
Cost or valuation				
1 January	85.256	-	73.692	**158.948**
Recognition of right of use asset on initial application of IFRS 16	-	53.016	-	**53.016**
Adjusted 1 January balance	85.256	53.016	73.692	**211.964**
Additions	59.456	9.210	19.640	**88.306**
Disposals/transfers	-	-	(355)	**(355)**
Transfer to Land and buildings	-	(43.568)	-	**(43.568)**
Transfer to investment properties	(4.619)	-	-	**(4.619)**
31 December	140.093	18.658	92.977	**251.728**
Depreciation				
1 January	1.199	-	56.260	**57.459**
Charge for the year	1.686	4.759	6.473	**12.918**
Disposals/transfers	-	-	(313)	**(313)**
Transfer to Land and buildings	-	62	-	**62**
31 December	2.885	4.821	62.420	**70.126**
Net book value 31 December	137.208	13.837	30.557	**181.602**

25. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group	Land and buildings 2018 €'000	Plant and equipment 2018 €'000	**Total 2018 €'000**
Cost or valuation			
1 January	85.256	69.727	**154.983**
Additions	-	4.883	**4.883**
Disposals/transfers	-	(918)	**(918)**
31 December	85.256	73.692	**158.948**
Depreciation			
1 January	-	52.442	**52.442**
Charge for the year	1.199	4.703	**5.902**
Disposals/transfers	-	(885)	**(885)**
31 December	1.199	56.260	**57.459**
Net book value 31 December	84.057	17.432	**101.489**

The Bank	Land and buildings 2019 €'000	Right of use asset 2019 €'000	Plant and equipment 2019 €'000	**Total 2019 €'000**
Cost or valuation				
1 January	78.965	-	70.966	**149.931**
Recognition of right of use asset on initial application of IFRS 16	-	53.237	-	**53.237**
Adjusted 1 January balance	78.965	53.237	70.966	**203.168**
Additions	59.456	9.160	19.613	**88.229**
Disposals/transfers	-	-	(329)	**(329)**
Transfer to Land and buildings	-	(43.568)	-	**(43.568)**
Transfer to investment properties	(6.456)	-	-	**(6.456)**
31 December	131.965	18.829	90.250	**241.044**
Depreciation				
1 January	1.099	-	53.768	**54.867**
Charge for the year	1.518	4.781	6.414	**12.713**
Disposals/transfers	-	-	(306)	**(306)**
Transfer to Land and buildings	-	62	-	**62**
31 December	2.617	4.843	59.876	**67.336**
Net book value 31 December	129.348	13.986	30.374	**173.708**

25. PROPERTY, PLANT AND EQUIPMENT (continued)

The Bank	Land and buildings 2018 €'000	Plant and equipment 2018 €'000	**Total 2018 €'000**
Cost or valuation			
1 January	78.965	67.030	**145.995**
Additions	-	4.848	**4.848**
Disposals/transfers	-	(912)	**(912)**
31 December	78.965	70.966	**149.931**
Depreciation			
1 January	-	50.004	**50.004**
Charge for the year	1.099	4.642	**5.741**
Disposals/transfers	-	(878)	**(878)**
31 December	1.099	53.768	**54.867**
Net book value 31 December	77.866	17.198	**95.064**

Land and buildings were revalued at 31 December 2017, by independent qualified valuers on a market value basis for their existing use. The main method used in the estimation of fair value is the comparable approach which uses prices and other relevant information generated by market transactions involving similar assets adjusted for time and property (physical and legal) characteristics. This is sometimes combined with the depreciated replacement cost method which is the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. In addition to the comparable approach, the Group also utilises in certain cases the income capitalisation approach which converts future amounts (cash flows or income and expenses) to a single current (discounted) amount.

The fair value of land and buildings is categorised as Level 3 of the fair value hierarchy.

The cost and net book value on a historic cost basis of the freehold land and buildings as at 31 December 2019 amounted to €118.363 thousand (31 December 2018: €63.526 thousand) and €108.208 thousand (31 December 2018: €54.504 thousand) respectively for the Group, and to €113.825 thousand (31 December 2018: €60.825 thousand) and €103.726 thousand (31 December 2018: €51.823 thousand) respectively for the Bank.

The cost of branches under renovation, which are included under plant and equipment, as at 31 December 2019 for the Group and the Bank amounted to €1.754 thousand (31 December 2018: €361 thousand).

As at 31 December 2019 the value of the revalued freehold land not subject to depreciation amounted to €48.741 thousand (31 December 2018: €31.133 thousand) for the Group and €47.566 thousand (31 December 2018: €29.958 thousand) for the Bank.

The Group leases land and building for its branches and as from 1 January 2019 recognises a right of use (RoU) asset as per IFRS 16 (refer to Note 3.2.).

As at 31 December 2019, Property, plant and equipment includes RoU assets amounting to €14 million for the Group and the Bank. The corresponding amount as at 1 January 2019 amounted to €53,1 million for the Group and €53,2 million for the Bank, out of which €43,6 million related to properties which were acquired following the settlement of the receivable in pursuant to the BTA and recognised as part of Debtors and Other Receivables as at 31 December 2018 (refer to Note 28). During the year the Bank exercised its call option on a property in Limassol pursuant to the BTA that was previously leasing. The acquisition is reflected in the Land and Buildings with the relevant transfer out of the RoU. As of the date of these Financial Statements the transaction has not been finalised.

25. PROPERTY, PLANT AND EQUIPMENT (continued)

For lease contracts under IFRS 16, instead of operating lease expense, the Group has recognised depreciation and interest costs. During the year ended 31 December 2019, the depreciation cost recognised resulting from the RoU amounted to €4,8 million for the Group and the Bank while the interest cost resulting from the lease liability (refer to Note 32) amounted to €339 thousand for the Group and €342 thousand for the Bank.

26. INTANGIBLE ASSETS

The Group	Computer software 2019 €'000	Goodwill 2019 €'000	Core deposits 2019 €'000	Core loans 2019 €'000	Transitional services agreement 2019 €'000	**Total 2019 €'000**
Cost						
1 January	46.836	25.263	2.801	6.956	2.407	**84.263**
Additions	13.119	-	-	-	-	**13.119**
31 December	59.955	25.263	2.801	6.956	2.407	**97.382**
Amortisation or impairment losses						
1 January	25.997	10.521	93	464	642	**37.717**
Charge for the year	5.769	33	280	1.391	1.765	**9.238**
Impairment (refer to Note 14)	1.158	183	-	-	-	**1.341**
31 December	32.924	10.737	373	1.855	2.407	**48.296**
Net book value 31 December	27.031	14.526	2.428	5.101	-	**49.086**

The Group	Computer software 2018 €'000	Goodwill 2018 €'000	Core deposits 2018 €'000	Core loans 2018 €'000	Transitional services agreement 2018 €'000	**Total 2018 €'000**
Cost						
1 January	41.818	25.263	-	-	-	**67.081**
Additions	6.732	-	-	-	-	**6.732**
Disposals	(500)	-	-	-	-	**(500)**
Impairment (refer to Note 14)	(1.214)	-	-	-	-	**(1.214)**
Acquisition	-	-	2.801	6.956	2.407	**12.164**
31 December	46.836	25.263	2.801	6.956	2.407	**84.263**
Amortisation or impairment losses						
1 January	22.339	10.488	-	-	-	**32.827**
Charge for the year	4.068	33	93	464	642	**5.300**
Disposals	(410)	-	-	-	-	**(410)**
31 December	25.997	10.521	93	464	642	**37.717**
Net book value 31 December	20.839	14.742	2.708	6.492	1.765	**46.546**

26. INTANGIBLE ASSETS (continued)

Goodwill includes 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 of Pancyprian Insurance Ltd (PIL) as well as Present value of acquired in force business (PVIF) owned by PIL.

On 31 December 2019, the Group assessed whether there is any impairment of goodwill arising on the acquisition of Pancyprian Insurance Ltd, by calculating the estimated fair value of the company, based on the future cash flows discounted to their present value using a pre-tax discount rate that reflects current market estimates of the time value of money and the risks specific to the investments. As a result of this assessment, no impairment of goodwill arose. Five years of forecasted profits before tax were included in the discounted cash flow model considering an increase in revenues driven from the acquired portfolio resulted from the Acquisition as assumed by Management. A long term growth rate into perpetuity has been used to calculate the terminal value. The key assumptions described above may change as economic and market conditions change and actual results differ from management expectations. The Group estimated that reasonably possible changes in the input parameters of the assumptions used would not cause the amount of goodwill to decline below the carrying amount.

During 2019, Pancyprian Insurance Ltd recognised an impairment of €183 thousand (31 December 2018: nil) on the value of goodwill arising on the acquisition in a number of PVIFs held.

As at 31 December 2018, a subsidiary company of the Group performed an assessment on the status and development progress of the computer software under development that was included in the category computer software. Based on the assessment that no future economic benefits are expected from the software under development, both from its use and from a disposal, and given the decision taken by the Board during the year to discontinue the development of the software, the Bank derecognised the intangible asset as at the reporting date via a write-off. As a result, a loss on derecognition of €1.214 thousand was recorded in profit or loss, and was included in impairment losses on financial instruments and non financial assets (Note 14).

The Bank	Computer software 2019 €'000	Core deposits 2019 €'000	Core loans 2019 €'000	Transitional services agreement 2019 €'000	**Total 2019 €'000**
Cost					
1 January	46.279	2.801	6.956	2.407	**58.443**
Additions	13.119	-	-	-	**13.119**
31 December	**59.398**	2.801	6.956	2.407	**71.562**
Amortisation or impairment losses					
1 January	25.534	93	464	642	**26.733**
Charge for the year	5.738	280	1.391	1.765	**9.174**
Impairment (refer to Note 14)	1.158	**-**	**-**	**-**	**1.158**
31 December	**32.430**	373	1.855	2.407	**37.065**
Net book value 31 December	**26.968**	2.428	5.101	-	**34.497**

26. INTANGIBLE ASSETS (continued)

The Bank

	Computer software 2018 €'000	Core deposits 2018 €'000	Core loans 2018 €'000	Transitional services agreement 2018 €'000	**Total 2018 €'000**
Cost					
1 January	40.208	-	-	-	**40.208**
Additions	6.571	-	-	-	**6.571**
Disposals	(500)	-	-	-	**(500)**
Acquisition	-	2.801	6.956	2.407	**12.164**
31 December	46.279	2.801	6.956	2.407	**58.443**
Amortisation or impairment losses					
1 January	21.913	-	-	-	**21.913**
Charge for the year	4.031	93	464	642	**5.230**
Disposals	(410)	-	-	-	**(410)**
31 December	25.534	93	464	642	**26.733**
Net book value 31 December	20.745	2.708	6.492	1.765	**31.710**

During 2019, an amount of €1.158 thousand for the Group and the Bank (31 December 2018: nil), which relates to technically obsolete computer software was included in impairment losses on non financial assets.

Core deposits

As per the agreement for the acquisition of part of CCB's banking operations, the Bank on-boarded some short-term deposits (e.g. current accounts) with credit balances over medium-to-long periods that carry lower interest rates compared to other medium-to-long term accounts. In such cases, an intangible asset was recognised since the Bank benefits from such lower interest expense, compared to the interest expense that would accrue to the bank should the borrowers have deposited the core amount in a term deposit.

Customer relationships (Purchased credit cards and overdrafts)

An additional intangible was recognised from the on-boarding of loans with revolving nature such as overdrafts and credit card accounts. Customers on-boarded by the Bank are expected to continue utilize their overdraft and credit card accounts in the future, creating an additional benefit to the Bank.

Transitional Service Agreement

As part of the Transaction, the Bank and CCB signed a Transitional Services Agreement under which the latter provided support services to the Bank during the 15-month integration/transitional period. Although the Bank paid a fee to cover for OPEX associated with the provision of running expenses, for the transitional services per se, as well as the associated personnel costs and central support costs, the Bank paid a nominal fee of €1. The fact that only a nominal fee of €1 was paid by the Bank for these services, gave rise to an economic benefit (intangible asset) for the Bank. As 31 December 2019, the 15-month integration/transitional period elapsed and the TSA was fully amortised.

27. DEFERRED TAX ASSET

Deferred taxation arose as follows:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Temporary difference of negative goodwill (refer to Note 48)	**1.107**	2.727	**1.107**	2.727
Tax losses	**6.162**	10.563	**6.162**	10.563
Allowance for expected credit losses	**8.668**	3.036	**8.668**	3.036
	15.937	16.326	**15.937**	16.326

Movement of Deferred tax asset:

2019	The Group and the Bank		
	Balance 1 January	Effect on income statement	Balance 31 December
	€'000	€'000	€'000
Temporary difference of negative goodwill	2.727	(1.620)	1.107
Tax losses	10.563	(4.401)	6.162
Allowance for expected credit losses	3.036	5.632	8.668
	16.326	(389)	15.937

2018	Balance 1 January	Effect on income statement	Effect on revenue reserve	Balance 31 December
	€'000	€'000	€'000	€'000
Temporary difference of negative goodwill	-	2.727	-	2.727
Tax losses	12.286	(1.723)	-	10.563
Allowance for expected credit losses[1]	-	-	3.036	3.036
	12.286	1.004	3.036	16.326

Note 1: The movement for 2018 includes the effect of IFRS 9 initial application.

An analysis of accumulated tax losses is presented below:

	Tax losses	Tax losses for which deferred tax was not recognised	Tax losses for which deferred tax was recognised
	€'000	€'000	€'000
Expiring within the current year	6.332	6.332	-
Expiring between 1 and 3 years	49.291	-	49.291
Expiring between 4 and 5 years	-	-	-
	55.623	6.332	49.291

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.

27. DEFERRED TAX ASSET (continued)

As a result of the reassesment of future taxable profits (taking into consideration the Acquisition) against which the existing taxable losses can be utilised an amount of €4.401 thousand (31 December 2018: €1.723 thousand) was debited in the Income Statement.

A deferred tax asset of €3.136 thousand (refer to Note 48) was recognised during 2018 as a result of the Acquisition, due to the fact that negative goodwill was not considered taxable. An amount of €1.620 thousand (31 December 2018: €409 thousand) was debited in the Income Statement representing the movement of the temporary difference arising from the negative goodwill.

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

28. OTHER ASSETS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Fair value of derivatives	**13**	567	**13**	567
Prepaid expenses	**3.430**	2.524	**3.445**	2.331
Assets held to cover liabilities of unit linked funds (refer to Note 32)	**17.313**	15.863	**-**	-
Indemnification assets	**6.449**	71.003	**6.449**	71.003
Stock of property	**177.348**	164.104	**118.124**	103.210
Investment properties	**12.160**	5.350	**13.844**	5.937
Debtors and other receivables	**157.099**	149.087	**88.942**	139.534
	373.812	408.498	**230.817**	322.582

As at 31 December 2019, other assets amounting to €373.812 thousand (2018: €408.498 thousand) included among others:

Assets held to cover liabilities of unit linked funds

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

	The Group	
	2019	2018
	€'000	€'000
Deposits	**4.833**	4.360
Goverment bonds	**397**	400
Equity securities	**12.083**	11.103
	17.313	15.863

28. OTHER ASSETS (continued)

Indemnification Assets

Indemnification assets were recognised as a result of the Acquisition. The movement of the carrying amount of the indemnification assets is analysed below:

	The Group and the Bank	
	2019	2018
	€'000	€'000
1 January	**71.011**	-
Initial recognition	**-**	78.435
Claims reclassified to Debtors and other receivables	**(64.508)**	-
Fees paid	**15.000**	-
Unwinding of discount	**995**	(286)
Charge for the year (refer to Note 14)	**(16.048)**	(7.138)
	6.450	71.011
Accumulated Expected Credit Losses	**(1)**	(8)
31 December	**6.449**	71.003
Estimated undiscounted amount	**9.112**	74.270

As at 31 December 2019, the Indemnification Assets amounted to €6.449 thousand (2018: €71.003 thousand) and is carried at amortised cost, reflecting re-measurement of the estimated future cash flows arising from claims to be made by the Bank in the event of APS losses and the present value of fees payable from the Bank to the RoC both discounted at the original effective interest rate.

In accordance with the terms of the APS agreement, the Bank has paid the relevant fee of €15 million and has submitted two claims in relation to APS Net Losses, the cumulative amount of which is €72,9 million, covering a total period of 13 months. The first claim related to APS Net Losses incurred from the date of completion (i.e. 03 September 2018) and until 30 June 2019 for the amount of €64,5 million. As a result, the amount of the first claim has been deducted from the indemnification asset and has been recognised in other assets as a receivable. The second claim, which was submitted during the post reporting period, related to APS Net Losses incurred during the period between 30 June 2019 to 30 September 2019 for the amount of €8,4 million.

The other party has disputed parts of the two claims and the parties are discussing those disputes in accordance with the terms of the APS Agreement.

Upon completion of the process any required adjustments will be made on the APS Indemnification Asset. For the year ending on 31 December 2019 the Bank included in the Administrative and other expenses, an estimated fee for professional advisors and legal services for that purpose.

a) Indemnification asset – Asset Protection Scheme (APS)

An amount of €1.959 thousand (31 December 2018: €64.173 thousand) relates to the agreement of an asset protection scheme (APS) entered into by the Bank and ex-CCB (refer to Notes 3.23., 5.8. and 48.2.).

The estimated undiscounted amount of the APS indemnification asset amounted to €4.387 thousand (31 December 2018: €66.677 thousand).

28. OTHER ASSETS (continued)

b) Indemnification asset – certain off-balance items acquired

As at 31 December 2019, the indemnification asset relating to the off-balance sheet exposures (refer to Notes 3.23., 5.8. and 48.2.) amounted to €4.490 thousand (31 December 2018: €6.830 thousand).

The estimated undiscounted amount of the indemnified off balance sheet assets as at 31 December 2019 amounted to €4.725 thousand (31 December 2018: €7.593 thousand).

Stock of property

The carrying amount of stock of property as at 31 December 2019 amounted to €177.348 thousand for the Group (31 December 2018: €164.104 thousand) and €118.124 thousand for the Bank (31 December 2018: €103.210 thousand).

The stock of property includes houses, flats, offices and other commercial properties, industrial buildings and land (fields and plots). These properties were either acquired in satisfaction of debt or were previously used by the Group and are currently available for sale.

The Bank, as part of its non performing exposures management, is entering into a number of debt to asset swap transactions or repossess asset through the foreclosure process. Repossessed assets are acquired either directly or indirectly through wholly owned Special Purpose Vehicles (SPVs) which are formed with the purpose of holding and managing these immovable properties. Until title deeds are issued in the name of the Bank/SPVs, the ownership is ensured via filing of the acquisition agreement in the Land Registry. As at 31 December 2019, stock of property owned by the Bank indirectly through SPVs amounted to €57.712 thousand (31 December 2018: €59.327 thousand).

As at 31 December 2019, owner occupied property which is no longer in use and is held for sale amounts to €1.180 thousand (31 December 2018: €1.237 thousand). The corresponding amount for stock of property acquired in satisfaction of debt was €176.168 thousand (31 December 2018: €162.867 thousand).

Movement on the value of stock of property acquired in satisfaction of debt:

	Banking & Financial services €'000	Insurance Services €'000	**Total €'000**
1 January 2019	162.605	262	**162.867**
Additions	67.733	93	**67.826**
Disposals	(42.217)	(162)	**(42.379)**
Impairment losses (refer to Note 14)	(12.146)	-	**(12.146)**
31 December 2019	175.975	193	**176.168**

	Banking & Financial services €'000	Insurance Services €'000	**Total €'000**
1 January 2018	146.057	730	**146.787**
Additions	49.228	54	**49.282**
Disposals	(32.679)	(521)	**(33.200)**
Impairment losses (refer to Note 14)	(1)	(1)	**(2)**
31 December 2018	162.605	262	**162.867**

28. OTHER ASSETS (continued)

Investment properties

Investment properties comprises of properties which are no longer or cannot be occupied by the Bank and are held for rental yields. The Bank initially held investment properties rented out or provided licence to use to subsidiaries and associated companies. Pursuant to the business transfer agreement (BTA) entered into between the Bank, Cooperative Asset Management Ltd (ex CCB) and the republic of Cyprus (RoC), the Bank in 2019 acquired some properties from ex CCB where by virtue of the law it became lessor for parts of these properties and hence also form part of investment properties. Investment properties are initially measured at cost and subsequently at fair value which is categorised as Level 3 of the fair value hierarchy.

Movement on the value of investment properties for the Group and the Bank:

	€'000
1 January 2019	5.350
Transfer from properties, plant and equipments	4.619
Net gains from revaluation of investment properties (refer to Note 11)	2.191
31 December 2019	12.160

	€'000
1 January 2018	5.350
31 December 2018	5.350

During the year 2019, an amount of €706 thousand was recognised as rental income (2018: €471 thousand).

Debtors and other receivables

As at 31 December 2019 an amount of €64,5 million that relates to APS claims receivable has been reclassified to Debtors and other receivables.

As at 31 December 2018, pursuant to the BTA and given that the Final Asset Value was less than the Target Asset Value, a receivable of €48,5 million was recognised as part of Debtors and other receivables (refer to Note 48.1.) and this was settled during the first quarter of 2019 mostly in the form of immovable properties.

29. DEPOSITS BY BANKS

	The Group and the Bank	
	2019	2018
	€'000	€'000
Interbank accounts	**46.320**	70.097
Cheque clearing	**36.442**	36.698
Money Market deposits	**91.228**	109.404
	173.990	216.199

29. DEPOSITS BY BANKS (continued)

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

	The Group and the Bank	
	2019	2018
	€'000	€'000
On demand	**83.845**	108.204
Within three months	**2.311**	2.770
Between three months and one year	**8.317**	11.010
Between one year and five years	**45.366**	55.618
Over five years	**34.151**	38.597
	173.990	216.199

On 31 December 2019, an amount of €3.686 thousand (31 December 2018: €3.617 thousand) is pledged as collateral by banks, being common practice among financial institutions.

30. CUSTOMER DEPOSITS AND OTHER CUSTOMER ACCOUNTS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Demand deposits	**4.180.371**	3.609.453	**4.180.371**	3.609.609
Savings deposits	**3.165.885**	2.549.207	**3.165.885**	2.549.207
Notice deposits	**1.112.325**	1.191.118	**1.112.325**	1.191.118
Time deposits	**6.143.073**	7.359.390	**6.143.073**	7.359.390
	14.601.654	14.709.168	**14.601.654**	14.709.324

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

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
On demand	**7.318.240**	6.047.639	**7.318.240**	6.047.795
Within three months	**2.786.474**	3.151.206	**2.786.474**	3.151.206
Between three months and one year	**3.534.029**	4.772.043	**3.534.029**	4.772.043
Between one year and five years	**632.109**	462.683	**632.109**	462.683
Over five years	**330.802**	275.597	**330.802**	275.597
	14.601.654	14.709.168	**14.601.654**	14.709.324

31. DEFERRED TAX LIABILITY

Deferred taxation arose as follows:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Property revaluation differences and temporary difference between depreciation and capital allowances	**3.257**	2.825	**3.034**	2.617
Temporary difference of negative goodwill (refer to Note 48)	**28.035**	41.632	**28.035**	41.632
	31.292	44.457	**31.069**	44.249

Movement of Deferred tax liability:

2019

	The Group			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and temporary difference between depreciation and capital allowances	2.825	(43)	475	3.257
Temporary difference of negative goodwill	41.632	-	(13.597)	28.035
	44.457	(43)	(13.122)	31.292

2018

	The Group			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and temporary difference between depreciation and capital allowances	2.498	(73)	400	2.825
Temporary difference of negative goodwill	-	-	41.632	41.632
	2.498	(73)	42.032	44.457

2019

	The Bank			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and temporary difference between depreciation and capital allowances	2.617	(43)	460	3.034
Temporary difference of negative goodwill	41.632	-	(13.597)	28.035
	44.249	(43)	(13.137)	31.069

31. DEFERRED TAX LIABILITY (continued)

2018	The Bank			
	Balance 1 January €'000	Effect on revaluation reserve €'000	Effect on income statement €'000	Balance 31 December €'000
Property revaluation differences and temporary difference between depreciation and capital allowances	2.351	(69)	335	2.617
Temporary difference of negative goodwill	-	-	41.632	41.632
	2.351	(69)	41.967	44.249

A deferred tax liability of €45.689 thousand (refer to Note 48) was recognised during 2018 as a result of the Acquisition, due to the fact that negative goodwill was not considered taxable. During 2019 an amount of €13.431 thousand (31 December 2018: €4.057 thousand) was credited in the Income Statement representing the movement of the temporary difference arising from the negative goodwill.

32. OTHER LIABILITIES

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Fair value of derivatives	**15.697**	7.981	**15.697**	7.981
Accrued expenses	**35.064**	32.186	**34.181**	31.704
Liabilities of unit linked funds (refer to Note 28)	**17.313**	15.863	**-**	-
Financial guarantees and loan commitments issued	**24.425**	36.747	**24.425**	36.747
Provisions for pending litigations or complaints and/or claims	**7.505**	7.761	**7.505**	7.761
Lease liability	**13.976**	-	**14.126**	-
Other accounts payable	**175.043**	96.288	**78.807**	53.579
	289.023	196.826	**174.741**	137.772

Financial guarantees and loan commitments issued:

	The Group and the Bank	
	2019	2018
	€'000	€'000
1 January	**36.747**	11.503
Adjustment on initial application of IFRS 9	**-**	(78)
Restated balance at 1 January 2018	**36.747**	11.425
Off balance exposures recognised on Acquisition (refer to Note 48.7.)	**-**	25.081
(Release)/charge for the year (refer to Note 14)	**(5.928)**	2.298
Reversal of fair value of financial guarantees and loan commitments acquired (refer to Note 14)	**(6.399)**	(2.060)
Exchange difference	**5**	3
31 December	**24.425**	36.747

32. OTHER LIABILITIES (continued)

Provisions for pending litigations or complaints and/or claims:

	The Group and the Bank	
	2019	2018
	€'000	€'000
1 January	**7.761**	8.183
Release for the year (refer to Note 13)	**(255)**	(375)
Provision utilised	**(1)**	(47)
31 December	**7.505**	7.761

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

Commission for the Protection of Competition

On 22 May 2017 the Commission for the Protection of Competition (CPC) announced its final decision in respect of the report submitted on 4 January 2010 by FBME Card Services Limited against the Bank and other banks as well as JCC Payment Systems Limited. In its decision CPC decided, among other, to impose a fine on the Bank of €1,6 million (which is included in provisions for pending litigations or complains and/or claims) 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. In July 2017, the Bank filed a recourse before the Administrative Court in Cyprus for the annulment of the aforementioned CPC decision and on 16 May 2019 the Administrative Court issued judgment in favour of the Bank, that is annulling the CPC decision and payment of the fine. CPC filed an appeal to the Administrative Court judgment, on 24 June 2019.

33. LOAN CAPITAL

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Tier 1 Capital				
Convertible Capital Securities 1	**1.597**	1.597	**1.597**	1.597
Convertible Capital Securities 2				
Balance 1 January	**128.070**	128.070	**128.070**	128.070
Conversion to ordinary shares	**(1)**	-	**(1)**	-
31 December	**128.069**	128.070	**128.069**	128.070
	129.666	129.667	**129.666**	129.667

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

33. LOAN CAPITAL (continued)

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.

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.

33. LOAN CAPITAL (continued)

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

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

(i) when as a result of any change or proposed change in Laws or Regulations of the Republic of Cyprus, the relevant Directives, Regulations or Laws in relation to the Credit Institutions or change or proposed change in the application or official interpretation, the CCS1 cease to be considered:
   - (a) Tier 1 Capital and/or
   - (b) appropriate funds for inclusion in the calculation of capital requirements as defined by Troika (as long as the Hellenic Bank or the Group is required to maintain Common Equity Tier 1 ratio equal to or greater than 9%).

(ii) if the Bank shall not be entitled to claim any deduction in the calculation of tax liabilities in Cyprus with respect to any interest payment on the next interest payment date or if the amount of any deduction for the Bank would be greatly reduced.

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

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

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

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

(a) The Common Equity Tier 1 ratio of the Bank or the Group after 31 October 2013 or if this date is amended by the Central Bank of Cyprus, after this new date, has decreased, or remains below 9% (as long as Hellenic Bank or the Group is required, by the Central Bank of Cyprus, to maintain its Common Equity Tier 1 ratio equal to or greater than 9%).

(b) The Common Equity Tier 1 ratio of the Bank or the Group at any time decreases or remains below the applicable percentage required, by the Central Bank of Cyprus, to be maintained by the Bank or the Group with maximum ratio of Common Equity Tier 1 of 9%.

(c) The Common Equity Tier 1 ratio of the Bank or the Group is decreased below 5,125%.

(d) If any Non-Viability Event occurs for the Bank or the Bank may be subject to state aid measures.

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

33. LOAN CAPITAL (continued)

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.

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.

33. LOAN CAPITAL (continued)

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

The rights and claims of CCS2 holders:
(i) are subordinated to the claims of the Bank's creditors, which are
  - depositors or other creditors whose claims are not subordinated to claims of the depositors,
  - creditors whose claims are subordinated, except those whose claims rank pari passu with the claims of CCS2 holders,
  - Bank bondholders that are classified as Capital Tier 2 (Tier 2), whose claims are subordinated,
  - Holders of securities that are issued or guaranteed by the Bank and their rank is higher of the rank of CCS2.

(ii) Rank pari passu with the claims of other existing issues of the Bank (Capital Securities 2003 and NCPCS) and any other future bond and other securities issues of the Bank that are classified as Tier 1, with the exception of the ordinary shares.
(iii) They have priority only in respect of the Bank's ordinary shareholders.

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

33. LOAN CAPITAL (continued)

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.

33. 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.

33. LOAN CAPITAL (continued)

Pursuant to the terms of the Prospectus dated 30 September 2013, CCS1/CCS2 holders may exercise the right to convert the CCS1/CCS2 into ordinary shares, during the periods between 15-31 January and 15-31 July of each year ("the Conversion Period") with the first Conversion Period commencing on 15 January 2016 and the last Conversion Period commencing on 15 July 2023. If a CCS1/CCS2 holder exercises his Right to convert, any interest accrued ceases to be calculated and becomes due until the end of the conversion period during which the holder has exercised voluntary conversion, according to the provisions of Paragraph 10.B.(d) of Part IV/B/III and 11.B.(d) of Part IV/C/III of the prospectus.

The first Conversion Period for CCS1/CCS2 commenced on 15 January 2016 and ended on 29 January 2016. During the third quarter of 2019 the Bank announced that during the CCS 2 conversion period (15-31 July 2019), it received one Voluntary Conversion Application for the conversion of 1.000 CCS 2 of nominal value of €1,00 each into ordinary shares of nominal value of €0,50 each of the Bank at the minimum conversion price of €6,50. As a result, 154 new ordinary shares of the Bank were issued. No Voluntary Conversion Application was received for CCS 1.

In accordance with the terms and characteristics of CCS 1 and 2, the appropriate classification and measurement of CCS 1 and 2 are as a financial liability.

34. SHARE CAPITAL

	The Group and the Bank			
	2019 €'000	**Number of shares (thousand)**	2018 €'000	Number of shares (thousand)
Authorised				
1.032 million shares €0,50 each	**516.000**	**1.032.000**	516.000	1.032.000

	The Group and the Bank			
	2019 €'000	**Number of shares (thousand)**	2018 €'000	Number of shares (thousand)
Issued				
Fully paid shares				
1 January	**99.237**	**198.475**	99.237	198.475
Issue of shares	**107.166**	**214.330**	-	-
Issue of shares from conversion of CCS 2	**-**	**-**	-	-
Issued share capital	**206.403**	**412.805**	99.237	198.475

In March 2019 214.330.364 new ordinary shares with nominal value of €0,50 were issued as a result of the Bank's decision to increase its share capital. The trading of the above shares commenced on 28 March 2019. In August 2019, 154 new ordinary shares with nominal value of €0,50 were issued as a result of a CCS2 voluntary conversion and their trading commenced on 4 September 2019 (refer to Note 33).

At 31 December 2019, 412.805.230 fully paid shares were in issue, with a nominal value of €0,50 each (31 December 2018: 198.474.712 shares with a nominal value €0,50 each).

The Bank is currently under a regulatory dividend distribution prohibition and therefore the Board of Directors of the Bank does not propose the payment of a dividend for the year ended 31 December 2019 at the shareholders' Annual General Meeting. No dividend was paid or proposed for the year ended 31 December 2018.

34. SHARE CAPITAL (continued)

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 above 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.

Reduction of share capital Reserve

The difference that emerged from the reduction of the nominal value of every ordinary share in 2013 (from €0,43 each to €0,01 each) was transferred from the share capital to a reserve under the name "reduction of share capital reserve" pursuant to the provisions of article 64(1)(e) of the Companies' Law (Chapter 113). There was no change in the balance of this reserve since then.

Share premium reserve

The difference between the issue price of share capital and its nominal value is recognised in the share premium reserve. During 2018 there was no movement to the share premium reserve. During 2019 an amount of € 42,9 million was credited as a result of the new shares issued. More specifically, in March 2019, 214.330.364 new shares were issued at the price of €0,70 per new ordinary share (nominal value per share € 0,50) and in August 2019, 154 new shares were issued due to the conversion of CCS2 at the price of €6,50 per new ordinary share (nominal value per share € 0,50) as per the terms of the relevant prospectus. Also an amount of €5,1 million of expenses that directly related to the issue of the capital were deducted from the Share premium reserve.

35. REVALUATION RESERVES

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Property revaluation reserve				
1 January	**36.556**	37.298	**33.797**	34.543
Deferred taxation on property revaluation	**43**	73	**43**	69
Transfer to revenue reserve due to excess depreciation	**(410)**	(419)	**(410)**	(419)
Transfer to revenue reserve due to disposal of immovable property	**-**	(396)	**-**	(396)
	36.189	36.556	**33.430**	33.797
Revaluation reserve of investments at fair value through Other Comprehensive income				
1 January	**18.756**	41.018	**18.731**	41.001
Adjustment on initial application of IFRS 9 net of taxation	**-**	1.987	**-**	2.054
Restated balance at 1 January 2018	**18.756**	43.005	**18.731**	43.055
Net revaluation surplus of investments in equity and other securities and collective investment units at fair value through other comprehensive income	**596**	337	**596**	337
Net revaluation surplus/(deficit) of investments in debt securities at fair value through other comprehensive income	**4.195**	(6.195)	**4.081**	(6.270)
Transfer to retained earnings reserve due to the disposal of investments in equity securities measured at fair value though other comprehensive income	**-**	(110)	**-**	(110)
Net revaluation deficit of investments in debt securities at fair value through other comprehensive income reclassified to income statement on disposal	**(93)**	(18.281)	**-**	(18.281)
	23.454	18.756	**23.408**	18.731
Total revaluation reserves	**59.643**	55.312	**56.838**	52.528

Any surplus arising on the revaluation of land and buildings is credited to the property revaluation reserve that is included in equity. If, after a revaluation, the depreciation charge is increased, then an amount equal to the increase (net of deferred taxation), is transferred annually from the property revaluation reserve to revenue reserve. Upon disposal of revalued property, any relevant accumulated revaluation surplus which remains in the property revaluation reserve is also transferred to revenue reserve. The balance of the revaluation reserves is not available for distribution to shareholders.

36. CONTINGENT LIABILITIES AND COMMITMENTS

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Contingent liabilities				
Acceptances and endorsements	**480**	326	**480**	326
Guarantees	**388.316**	380.153	**388.337**	380.174
	388.796	380.479	**388.817**	380.500
Commitments				
Undrawn formal standby facilities	**787.404**	836.329	**787.482**	836.408
Undisbursed loan amounts	**199.635**	139.435	**199.635**	139.435
Other commitments	**6.568**	9.816	**6.568**	9.816
	993.607	985.580	**993.685**	985.659
	1.382.403	1.366.059	**1.382.502**	1.366.159

Capital Commitments

At 31 December 2019, the Group's and the Bank's commitments for capital expenditure, not recognised in the statement of financial position, amounted to €10.297 thousand (Group 2018: €8.939 thousand and the Bank 2018: €8.876 thousand).

Contingent liabilities for pending litigations or complaints and/or claims

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

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

Consumer Protection Service

On 12 October 2017, the Consumer Protection Service (the CPS) of the Ministry of Energy Commerce and Industry has issued, following a complaint from certain borrowers, a decision in relation to certain terms of the Bank's standard housing loan agreements that were used in the period 2007 - 2008. The CPS took the view that these agreements contain certain unfair/non transparent terms and has invited the Bank to inform the CPS of any actions it intends to take in relation to its findings. Although the Bank does not share the views of the CPS and/or disputes the interpretation given by the CPS to the agreements, it has nevertheless discussed in good faith with the CPS and provided a list of certain actions that addressed certain of the CPS's concerns. Notwithstanding the above, it should be noted that the CPS has the right, pursuant to the provisions of the relevant law, to file an application to the competent court seeking a court order that will prevent the Bank from enforcing the terms that have been considered unfair against consumers. The Bank will dispute such an application.

36. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Employment related litigation

In March 2020, 23 employees of the Bank filed an indictment against the Bank and certain board members and executives of the Bank, for the non payment of increments as of 1 January 2019. By way of a background, the latest collective agreement between the Bank and Cyprus Union of Bank Employees (ETYK) (the 2017 - 2018 collective agreement), which provided that the Bank would pay increments to its employees for the years 2017 and 2018, has expired on 31 December 2018. Although both ETYK and the Bank had requested the renegotiation of the collective agreement prior to its expiry, ETYK is accusing the Bank of not granting increments to its employees for 2019 in accordance to the terms of the 2017 - 2018 collective agreement. Despite the numerous requests of the Bank, ETYK has refused to enter into discussions for the conclusion of a new collective agreement. A new collective agreement has not to date been agreed between the Bank and ETYK and, in view of the absence of such an agreement, the Bank did not grant any increments for 2019 based on the provisions of the 2017 - 2018 collective agreement (that has expired). Instead, for 2019 the Bank has granted salary increases to all staff which was permanent in 2018 in line with a model which takes into account performance and market rates. The total amount granted as increases for 2019 amounted to €3,6 million and a horizontal pay increase of 2% on gross salary, was paid to such permanent staff. In November 2019, ETYK threatened to proceed with criminal action against the Bank, in relation to the non payment by the Bank of annual increments to its employees for 2019. This has materialized by way of the claims of the 23 employees in the above mentioned indictment. Legal advice has been sought in relation to this matter and the Bank is defending the above claim in accordance with such advice. At this stage the Bank can not assess the exposure due to the fact that the proceedings are at a very preliminary stage.

Also, within 2020, a number of legal actions that were filed against the Bank before the Employment Tribunal, were served on the Bank. These legal actions were filed by former ex Cyprus Cooperative Bank employees who were transferred to the Bank in September 2018, pursuant to the provisions of the Law on the Safeguarding of Employees' Rights in the Event of Transfers of Undertakings, Businesses or Parts of Undertakings or Businesses (TUPE). To date, no new collective agreement has been concluded between the Bank and the employees' representatives, for 2019 and the subsequent years. The allegations in the legal actions concern salary related issues. In particular the employees seek the reinstatement of their salaries and/or increments to the levels of 31 December 2013. At the material time of the actions, these employees were members of PEO. In 2019, PEO has threatened to advise the affected employees to proceed with legal actions against the Bank for the non-reinstatement of salaries and/or increments to the levels of 31 December 2013. This has materialized by way of these legal actions. The Bank is defending these legal actions. At this stage we cannot assess the Bank's exposure due to the fact that (a) the proceedings are at a very preliminary stage and (b) if the claims were to have an adverse result on the Bank, the Bank's exposure would still depend on whether it would be indemnified under the provisions of the BTA.

37. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and available for use balances with Central Banks and placements with other banks, with original maturities of less than three months as follows:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Cash balances and non-obligatory balances with Central Banks	**4.830.123**	4.248.396	**4.830.122**	4.248.394
Placement with other banks with original maturity less than three months	**262.698**	183.712	**241.935**	172.838
Total cash and cash equivalents	**5.092.821**	4.432.108	**5.072.057**	4.421.232

37. CASH AND CASH EQUIVALENTS (continued)

Analysis of total cash and balances with Central Banks and Placements with other banks are presented below:

	The Group		The Bank	
	2019	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000
Cash balances and non-obligatory balances with Central Banks	**4.830.123**	4.248.396	**4.830.122**	4.248.394
Non available for use balances with Central Banks	**131.848**	143.048	**131.848**	143.048
Total Cash and Balances with Central Banks	**4.961.971**	4.391.444	**4.961.970**	4.391.442
Placement with other banks with original maturity less than three months	**262.486**	183.712	**241.743**	172.838
Other placements with other banks	**132.772**	124.176	**132.000**	121.445
Total Placements with other banks	**395.258**	307.888	**373.743**	294.283

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

According to the Cyprus Securities and Stock Exchange Regulations and in accordance with the requirements of the Directive DI190/2007/04 para. 4 of the Cyprus Securities and Exchange Commission, the Bank is required to disclose the percentage shareholdings in the Bank's share capital owned by Members of the Board of Directors, their spouses, or/and relatives by blood up to first degree and companies in which they control directly and indirectly at least 20% of the voting rights at 31 December 2019 and the respective percentages as at 11 May 2020.

	31 December 2019			11 May 2020		
	Direct participation	Indirect participation	Total	Direct participation	Indirect participation	Total
Dr E. A. Polykarpou	-	-	-	-	-	-
I. A. Georgiadou	-	-	-	-	-	-
M. Pantelidou Neophytou	0,00300%	-	0,00300%	0,00300%	-	0,00300%
D. W. Bonanno	-	-	-	-	-	-
A. Christofides[1]	-	0,00001%	0,00001%	N/A	N/A	N/A
A. C. Wynn	-	-	-	-	-	-
S. J. Albutt	-	-	-	-	-	-
D. Efstathiou	-	-	-	-	-	-
C. Themistocleous[1]	N/A	N/A	N/A	-	-	-
K. R. Kraus	-	-	-	-	-	-
M. Maratheftis	-	-	-	-	-	-
M. Comastri	-	-	-	-	-	-
I. A. Matsis	-	0,00101%	0,00101%	-	0,00101%	0,00101%
L. Kramer	-	-	-	-	-	-

1. On 6 March 2020 Mr A. Christofides vacated the office as a Member of the Board of Directors and Mr C. Themistocleous was appointed.

The Members of the Board of Directors as at 31 December 2019 and as at 11 May 2020 did not hold any stake in the Bank's issued loan capital (31 December 2018: nil).

39. 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.

	2019	2018
	€'000	€'000
Loans and advances	**378**	407
Collaterals	**377**	396
Deposits	**1.590**	2.260

The above table does not include year end balances of members of the Board of Directors and their connected persons who resigned during the year.

Additionally, as at 31 December 2019, 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 €26 thousand which did not exceed 1% of the Bank's net assets (31 December 2018: €67 thousand).

For the year ended 31 December 2019 interest income in relation to Members of the Board of Directors and their connected persons amounted to €10 thousand (31 December 2018: €1 thousand), while interest expense in respect of Members of the Board of Directors and their connected persons amounted to €1 thousand (31 December 2018: €9 thousand).

Emoluments and fees of Members of the Board of Directors

	2019	2018
	€'000	€'000
Emoluments and fees of Members of the Board of Directors:		
Emoluments and benefits in executive capacity	**943**	958
Employer's contributions for social insurance, etc	**45**	29
Total emoluments for Executive Directors	**988**	987
Total fees of members of the Board	**1.110**	1.084
Employer's contributions – Non Executive Directors	**15**	-

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

The sales of insurance policies for the year ended 31 December 2019 by the Group's subsidiary, Pancyprian Insurance Ltd, to Members of the Board and their connected persons as defined above, amounted to €16 thousand (31 December 2018: €9 thousand), while the sales of insurance policies by the Group's subsidiary, Hellenic Alico Life Insurance Company amounted to € 2 thousand (31 December 2018: € 1 thousand).

For the year ended 31 December 2019 non interest income which relates to Members of the Board of Directors and their connected persons was nil (31 December 2018: nil).

Key Management personnel who are not Directors and their connected persons

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

39. RELATED PARTY TRANSACTIONS (continued)

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.

	2019	2018
	€'000	€'000
Loans and advances	**1.021**	1.012
Collaterals	**578**	840
Deposits	**3.785**	4.553

The number of Key Management personnel as at 31 December 2019 was 16 (2018: 15).

As at 31 December 2019, there were contingent liabilities and commitments to Key Management personnel who were not Directors and their connected persons amounting to €305 thousand (2018: €351 thousand).

Interest income in relation to Key Management personnel and their connected persons for the year ended 31 December 2019 amounted to €10 thousand (31 December 2018: €10 thousand), while interest expense in relation to Key Management personnel and their connected persons amounted to €12 thousand (31 December 2018: €36 thousand).

Emoluments of Key Management personnel of the Group

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

	2019	2018
	€'000	€'000
Emoluments of Key Management personnel who were not Directors:		
Salaries and other short term benefits	**2.293**	2.002
Employer's contributions for social insurance, etc	**196**	146
Retirement benefits	**191**	168
Amounts paid on termination	**-**	47
	2.680	2.363

Other transactions with key Management personnel who are not Directors and their connected persons

The sales of insurance policies for the year ended 31 December 2019 by the Group's subsidiary, Pancyprian Insurance Ltd, to Key Management personnel and their connected persons, as defined above, amounted to €19 thousand (31 December 2018: €12 thousand) while the sales of insurance policies by the Group's subsidiary, Hellenic Alico Life Insurance Company amounted to €22 thousand (31 December 2018: €25 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.

39. RELATED PARTY TRANSACTIONS (continued)

	2019	2018
	€'000	€'000
Loans and advances	**6**	1
Deposits	**45.204**	28.311

On 31 December 2019 there were collaterals held for provision of guarantees to Shareholders with significant influence and connected persons, amounting to €401 thousand (31 December 2018: €398 thousand).

On 31 December 2019, 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 €707 thousand (31 December 2018: €715 thousand).

Interest income in relation to Shareholders with significant influence and connected persons for the year ended 31 December 2019 amounted to nil (31 December 2018: nil) while the corresponding interest expense was €2 thousand (31 December 2018: €4 thousand).

Other transactions with Shareholders with significant influence and their connected persons

The sales of insurance policies by the Group's subsidiary, Pancyprian Insurance Ltd, to Shareholders with significant influence and their connected persons as defined above, amounted to €136 thousand (31 December 2018: €139 thousand).

For the year ended 31 December 2019 non-interest income amounting to €67 thousand (31 December 2018: €125 thousand) was received which relates to Shareholders with significant influence and their connected persons.

As at 31 December 2019, Shareholders with significant influence and their connected persons had in their possession CCS 1 amounting to €23,4 thousand and CCS2 amounting to €8,0 million (31 December 2018: €8,0 million).

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.

40. 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 2019:

Demetra Investment Public Ltd[1]	21,01%
Wargaming Group Limited[2]	20,61%
Poppy SARL	17,30%
Third Point Hellenic Recovery Fund LP	12,59%
Ταμείο Προνοίας Τραπεζικών Υπαλλήλων (Provident Fund of the Cyprus Banks Employees)	6,26%
Senvest Group	5,06%

On 31 December 2019 shareholders holding more than 5% of the share capital, had in their possession CCS1 amounting to €770,1 thousand (31 December 2018: €23,4 thousand) and CCS2 amounting to €33,9 million (31 December 2018: €33,9 million).

40. 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.

Demetra Investment Public Ltd[1]	21,01%
Wargaming Group Limited[2]	20,61%
Poppy SARL	17,30%
Third Point Hellenic Recovery Fund LP	12,59%
Ταμείο Προνοίας Τραπεζικών Υπαλλήλων (Provident Fund of the Cyprus Banks Employees)	6,26%
Senvest Group	5,06%

Note 1: It is noted that Logicom Services Ltd, which has a direct holding of 1,12% in the Bank, also has a 29,62% holding in Demetra Investment Public Ltd whose holding in the Bank is specified in the above table.

Note 2: Wargaming Group Limited includes direct holding in the Bank of the Provident Fund of the Executive Directors of Wargaming and the Provident Fund of the Senior Management Personnel Wargaming.

As at 11 May 2020, Shareholders holding more than 5% of the share capital, had in their possession CCS1 amounting to €770,1 thousand and CCS2 amounting to €33,9 million.

41. CATEGORISATION OF FINANCIAL INSTRUMENTS

The Group

31 December 2019	Carrying amount €'000	Securities classified at fair value through profit or loss €'000	Securities at amortised cost €'000	Securities classified at fair value through other comprehensive income €'000	Other financial instruments at amortised cost €'000
Assets					
Cash and balances with Central Banks	4.961.971	-	-	-	4.961.971
Placements with other banks	395.258	-	-	-	395.258
Loans and advances to customers	5.979.148	-	-	-	5.979.148
Debt securities	4.299.932	-	3.803.913	496.019	-
Equity and other securities and collective investment units	42.378	34.813	-	7.565	-
Derivatives	13	13	-	-	-
APS claims receivable	64.508	-	-	-	64.508
Indemnification assets	6.449	-	-	-	6.449
	15.749.657	34.826	3.803.913	503.584	11.407.334
Liabilities					
Deposits by banks	173.990	-	-	-	173.990
Customer deposits and other customer accounts	14.601.654	-	-	-	14.601.654
Financial guarantees and loan commitments issued	24.425	-	-	-	24.425
Lease liability	13.976	-	-	-	13.976
Derivatives	15.697	15.697	-	-	-
Loan capital	129.666	-	-	-	129.666
	14.959.408	15.697	-	-	14.943.711

41. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

	Carrying amount €'000	Securities classified at fair value through profit or loss €'000	Securities at amortised cost €'000	Securities classified at fair value through other comprehensive income €'000	Other financial instruments at amortised cost €'000
31 December 2018					
Assets					
Cash and balances with Central Banks	4.391.444	-	-	-	4.391.444
Placements with other banks	307.888	-	-	-	307.888
Loans and advances to customers	6.283.438	-	-	-	6.283.438
Debt securities	4.526.428	-	3.933.478	592.950	-
Equity and other securities and collective investment units	34.638	27.668	-	6.970	-
Derivatives	567	567	-	-	-
Indemnification assets	71.003	-	-	-	71.003
	15.615.406	28.235	3.933.478	599.920	11.053.773
Liabilities					
Deposits by banks	216.199	-	-	-	216.199
Customer deposits and other customer accounts	14.709.168	-	-	-	14.709.168
Derivatives	7.981	7.981	-	-	-
Financial guarantees and loan commitments issued	36.747	-	-	-	36.747
Loan capital	129.667	-	-	-	129.667
	15.099.762	7.981	-	-	15.091.781

41. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

The Bank

31 December 2019	Carrying amount €'000	Securities classified at fair value through profit or loss €'000	Securities at amortised cost €'000	Securities classified at fair value through other comprehensive income €'000	Other financial instruments at amortised cost €'000
Assets					
Cash and balances with Central Banks	4.961.970	-	-	-	4.961.970
Placements with other banks	373.743	-	-	-	373.743
Loans and advances to customers	5.979.148	-	-	-	5.979.148
Debt securities	4.299.445	-	3.803.913	495.532	-
Equity and other securities	14.136	6.571	-	7.565	-
APS claims receivable	64.508	-	-	-	64.508
Derivatives	13	13	-	-	-
Indemnification assets	6.449	-	-	-	6.449
	15.699.412	6.584	3.803.913	503.097	11.385.818
Liabilities					
Deposits by banks	173.990	-	-	-	173.990
Customer deposits and other customer accounts	14.601.654	-	-	-	14.601.654
Financial guarantees and loan commitments issued	24.425	-	-	-	24.425
Lease liability	14.126	-	-	-	14.126
Derivatives	15.697	15.697	-	-	-
Loan capital	129.666	-	-	-	129.666
	14.959.558	15.697	-	-	14.943.861

41. CATEGORISATION OF FINANCIAL INSTRUMENTS (continued)

	Carrying amount €'000	Securities classified at fair value through profit or loss €'000	Securities at amortised cost €'000	Securities classified at fair value through other comprehensive income €'000	Other financial instruments at amortised cost €'000
31 December 2018					
Assets					
Cash and balances with Central Banks	4.391.442	-	-	-	4.391.442
Placements with other banks	294.283	-	-	-	294.283
Loans and advances to customers	6.283.438	-	-	-	6.283.438
Debt securities	4.525.629	-	3.933.478	592.151	-
Equity and other securities	11.497	4.527	-	6.970	-
Derivatives	567	567	-	-	-
Indemnification assets	71.003	-	-	-	71.003
	15.577.859	5.094	3.933.478	599.121	11.040.166
Liabilities					
Deposits by banks	216.199	-	-	-	216.199
Customer deposits and other customer accounts	14.709.324	-	-	-	14.709.324
Derivatives	7.981	7.981	-	-	-
Financial guarantees and loan commitments issued	36.747	-	-	-	36.747
Loan capital	129.667	-	-	-	129.667
	15.099.918	7.981	-	-	15.091.937

42. FAIR VALUE MEASUREMENT

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

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

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

Fair value of financial instruments

The tables below present, at Group and Bank level, the carrying amount and fair value of financial instruments on the basis of the three-level hierarchy by reference to the source of data used to derive the fair values. The levels of hierarchy of fair value are as follows:

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

For assets and liabilities recognised at fair value in the Financial Statements, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

42. FAIR VALUE MEASUREMENT (continued)

Group

31 December 2019	Carrying amount €'000	Fair value €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Finacial Assets measured at fair value:					
Debt securities classified at fair value through other comprehensive income	496.019	496.019	492.082	3.937	-
Equity and other securities and collective investment units	42.378	42.378	29.628	-	12.750
Derivatives	13	13	-	13	-
	538.410	**538.410**	**521.710**	**3.950**	**12.750**
Financial Assets not measured at fair value:					
Cash and balances with Central Banks	4.961.971	4.961.971	-	4.961.971	-
Placements with other banks	395.258	395.258	-	395.258	-
Loans and advances to customers	5.979.148	5.778.705	-	-	5.778.705
Debt securities classified at amortised cost	3.803.913	3.902.144	1.272.230	2.589.940	39.974
APS claims receivable	64.508	64.508	-	-	64.508
Indemnification assets	6.449	9.496	-	-	9.496
	15.211.247	**15.112.082**	**1.272.230**	**7.947.169**	**5.892.683**
Financial liabilities measured at fair value:					
Derivatives	15.697	15.697	-	15.697	-
Financial liabilities not measured at fair value:					
Deposits by banks	173.990	173.990	-	173.990	-
Customer deposits and other customer accounts	14.601.654	14.601.654	-	-	14.601.654
Lease liability	13.976	13.976	-	-	13.976
Financial guarantees and loan commitments issued	24.425	24.425	-	-	24.425
Loan capital	129.666	71.333	-	71.333	-
	14.943.711	**14.885.378**	**-**	**245.323**	**14.640.055**

42. FAIR VALUE MEASUREMENT (continued)

Group

31 December 2018	Carrying amount €'000	Fair value €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Financial Assets measured at fair value:					
Debt securities classified at fair value through other comprehensive income	592.950	592.950	585.883	7.067	-
Equity and other securities and collective investment units	34.638	34.638	24.528	-	10.110
Derivatives	567	567	-	567	-
	628.155	**628.155**	**610.411**	**7.634**	**10.110**
Financial Assets not measured at fair value:					
Cash and balances with Central Banks	4.391.443	4.391.443	-	4.391.443	-
Placements with other banks	307.888	307.888	-	307.888	-
Loans and advances to customers	6.283.438	6.183.620	-	-	6.183.620
Debt securities classified at amortised cost	3.933.478	3.994.773	279.825	3.714.948	-
Indemnification assets	71.003	70.555	-	-	70.555
	14.987.250	**14.948.279**	**279.825**	**8.414.279**	**6.254.175**
Financial liabilities measured at fair value:					
Derivatives	7.981	7.981	-	7.981	-
Financial liabilities not measured at fair value:					
Deposits by banks	216.199	216.199	-	216.199	-
Customer deposits and other customer accounts	14.709.168	14.709.168	-	-	14.709.168
Financial guarantees and loan commitments issued	36.747	36.747	-	-	36.747
Loan capital	129.667	71.317	-	71.317	-
	15.091.781	**15.033.431**	**-**	**287.516**	**14.745.915**

42. FAIR VALUE MEASUREMENT (continued)

Bank

31 December 2019	Carrying amount €'000	Fair value €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Financial Assets measured at fair value:					
Debt securities classified at fair value through other comprehensive income	495.532	495.532	491.595	3.937	-
Equity and other securities and collective investment units	14.136	14.136	1.386	-	12.750
Derivatives	13	13	-	13	-
	509.681	**509.681**	**492.981**	**3.950**	**12.750**
Financial Assets not measured at fair value:					
Cash and balances with Central Banks	4.961.970	4.961.970	-	4.961.970	-
Placements with other banks	373.743	373.743	-	373.743	-
Loans and advances to customers	5.979.148	5.778.705	-	-	5.778.705
Debt securities classified at amortised cost	3.803.913	3.902.144	1.272.230	2.589.940	39.974
APS claims receivable	64.508	64.508	-	-	64.508
Indemnification assets	6.449	9.496	-	-	9.496
	15.189.731	**15.090.566**	**1.272.230**	**7.925.653**	**5.892.683**
Finacial liabilities measured at fair value:					
Derivatives	15.697	15.697	-	15.697	-
Financial liabilities not measured at fair value:					
Deposits by banks	173.990	173.990	-	173.990	-
Customer deposits and other customer accounts	14.601.654	14.601.654	-	-	14.601.654
Lease liability	14.126	14.126	-	-	14.126
Financial guarantees and loan commitments issued	24.425	24.425	-	-	24.425
Loan capital	129.666	71.333	-	71.333	-
	14.943.861	**14.885.528**	**-**	**245.323**	**14.640.205**

42. FAIR VALUE MEASUREMENT (continued)

Bank

31 December 2018	Carrying amount €'000	Fair value €'000	Level 1 €'000	Level 2 €'000	Level 3 €'000
Financial Assets measured at fair value:					
Debt securities classified at fair value through other comprehensive income	592.151	592.151	585.084	7.067	-
Equity and other securities and collective investment units	11.497	11.497	1.387	-	10.110
Derivatives	567	567	-	567	-
	604.215	**604.215**	**586.471**	**7.634**	**10.110**
Financial Assets not measured at fair value:					
Cash and balances with Central Banks	4.391.442	4.391.442	-	4.391.442	-
Placements with other banks	294.283	294.283	-	294.283	-
Loans and advances to customers	6.283.438	6.183.620	-	-	6.183.620
Debt securities classified at amortised cost	3.933.478	3.994.773	279.825	3.714.948	-
Indemnification assets	71.003	75.555	-	-	75.555
	14.973.644	**14.939.673**	**279.825**	**8.400.673**	**6.259.175**
Financial liabilities measured at fair value:					
Derivatives	7.981	7.981	-	7.981	-
Financial liabilities not measured at fair value:					
Deposits by banks	216.199	216.199	-	216.199	-
Customer deposits and other customer accounts	14.709.324	14.709.324	-	-	14.709.324
Financial guarantees and loan commitments issued	36.747	36.747	-	-	36.747
Loan capital	129.667	71.317	-	71.317	-
	15.091.937	**15.033.587**	**-**	**287.516**	**14.746.071**

The fair values of financial assets and liabilities presented in the above tables are as at the reporting date and do not represent any expectations about their future.

42. FAIR VALUE MEASUREMENT (continued)

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

	Investments at fair value through other comprehensive income €'000	Other financial assets at fair value through profit or loss €'000	**Total €'000**
1 January 2019	5.583	4.527	**10.110**
Gains recognised in consolidated income statement in the categories "Net income from fees, commissions, net gains on disposal and revaluation of foreign currencies and financial instruments and other income"	-	2.044	**2.044**
Gains recognised in consolidated revaluation reserves of investments at fair value through other comprehensive income	596	-	**596**
31 December 2019	6.179	6.571	**12.750**

	Investments at fair value through other comprehensive income €'000	Other financial assets at fair value through profit or loss €'000	Total €'000
1 January 2018	5.307	2.531	7.838
Gains recognised in consolidated income statement in the categories "Net income from fees, commissions, net gains on disposal and revaluation of foreign currencies and financial instruments and other income"	-	623	623
Additions	2	1.373	1.375
Disposals	(297)	-	(297)
Gains recognised in consolidated revaluation reserves of investments at fair value through other comprehensive income	571	-	571
31 December 2018	5.583	4.527	10.110

During the years 2019 and 2018 there were no transfers between Level 1 and Level 2.

Valuation techniques of Level 2 investments in debt securities and derivatives measured at fair value through other comprehensive income and fair value through profit or loss

For the fair value of the investments in debt securities categorised under level 2 hierarchy, the Bank utilises the outstanding Cyprus Government European Medium Term Notes (EMTNs) and extrapolates the spread over the German sovereign curve at the valuation date to construct the yield curve used to fairly value these level 2 debt securities.

42. FAIR VALUE MEASUREMENT (continued)

Derivative financial instruments are valued using a valuation technique with observable market data, and these are mainly interest rate swaps, foreign exchange swaps, foreign exchange options, forward foreign exchange rate contracts and interest rate collars. The valuation techniques most frequently used include forward pricing and swap models, using present value calculations. The models use various inputs including foreign exchange spot and forward rates and interest rate curves. Furthermore, it is essential to note that the vast majority of the Bank’s derivative positions are performed with counterparties that the Bank has ISDA (International Swaps and Derivatives Association) and CSA (Credit Support Annex) agreements, exchanging cash collateral on a daily basis.

Valuation techniques of Level 3 investments in equity and other securities for financial assets at fair value through profit or loss

Equity and other secuirities at fair value through profit or loss include the Bank's stakeholding of Series C Visa Inc. shares convertible into Class A Common Stock which are valued based on the stock price of the underlying shares on each reporting date. Due to the conversion of the shares taking place on the twelfth anniversary of the closing date of the agreement (21 June 2016) after settling any unresolved and outstanding cover claims, it was considered appropriate to apply a haircut of 50% on the observable value of the shares. The significant unobservable input used above is considered to be the haircut on the calculated value of the shares. A change in the significant unobservable input by 15% would result in a change in the value of the equity and other securities by €986 thousand (31 December 2018: €453 thousand).

Valuation techniques of Level 3 investments in equity and other securities for financial assets at fair value through other comprehensive income

Equity and other securities categorised under Level 3 hierarchy include non-listed investments. For these investments, the Group uses models which are not based on observable market data and takes into account, amongst others, the net positions of the entities in which the investment has been made, as well as estimates of the Group’s Management to reflect uncertainties in fair values resulting from the lack of data and significant adverse changes in technology, market, economic or legal environment in which the entity operates. The significant unobservable input used above is considered to be the net asset position of the entities. A change in the significant unobservable input by 15% would result in a change in the value of the equity and other securities by €1.135 thousand (31 December 2018: €558 thousand).

Fair Value of financial instruments not measured at fair value but for which fair value is disclosed

The fair value of the financial instruments classified and subsequently measured at amortised cost, including the identifiable assets and liabilities acquired as a result of the Acquisition in 2018, is disclosed below. The identifiable assets and liabilities acquired as a result of the Acquisition were initially recognised at fair value in accordance with IFRS 3, using valuation techniques as described in Note 48.8 of the last annual financial statements.

Debt securities classified at amortised cost

For the calculation of the fair value of investments in debt securities that would be classified as level 1 the Group uses quoted prices in active markets. For the calculation of the fair value of investments in debt securities that would be classified as level 2 the Group utilises the outstanding Cyprus Government European Medium Term Notes (EMTNs) and extrapolates the spread over the German sovereign curve at the valuation date to construct the yield curve used to fairly value these level 2 debt securities.

42. FAIR VALUE MEASUREMENT (continued)

Loans and advances to customers

The fair value of loans and advances to customers is based on the present value of expected future cash flows.

The level of subjectivity and degree of management judgment required is significant in these discounted cash flow models given that management is required to exercise judgment in the selection and application of parameters and assumptions where some or all of the parameter inputs are less observable. Future cash flows have been based on the future expected loss rate per loan category, taking into account expectations in the credit quality of the borrowers. The discount rate includes components that capture: the funding cost, cost of capital, regulatory MREL requirements and adjustments for operational costs.

Indemnification assets

The fair value of the indemnification assets is determined based on the Income Approach in line with the provisions of IFRS 13.

As at 31 December 2019 an amount of €64,5 million that relates to APS claims receivable has been deducted from the indemnification asset and recognised in other assets as a receivable. In accordance with the terms of the APS agreement the claims process entails submission by the Bank of a calculation data file with ensuing payments be made within 30 calendar days unless there is a dispute (refer to Note 28).

Asset Protection Scheme:

The fair value is estimated as the sum of:

a) The Present Value of claims to be made by the Bank in the event of APS Losses. The claims and timing of these claims reflect the re measurement of the estimated future cash flows arising from claims to be made by the Bank in the event of APS losses. All calculations are made on an asset by asset basis.

b) The Present Value of fees payable from the Bank to the Republic of Cyprus (refer to Note 48.2.).

The present value of the APS indemnification asset has been discounted at the equivalent prevailing market interest rate of sovereign exposures with similar maturity.

Off-balance sheet exposures:

The fair value is estimated on:

a) The recovery as a result of the estimated losses arising from the off-balance sheet exposures without an on-balance sheet amount.

b) The recovery as a result of the estimated losses arising from the off-balance exposures of credit cards with an on-balance sheet amount.

The recovery as a result of the estimated losses of the above two elements have been discounted at the equivalent prevailing market interest rates of sovereign exposures with similar maturity.

Other key inputs involved in the fair value measurement of the indemnification assets relating to APS and off-balance sheet exposures include the estimates and parameters involved in the measurement of ECL of the underlying loans and off-balance sheet exposures. The sensitivity of this is presented in Note 5.

42. FAIR VALUE MEASUREMENT (continued)

Loan Capital:

The fair value of loan capital is based on quoted price in an inactive market. Loan Capital has been classified in Level 2.

Other financial instruments:

For the remaining financial assets and financial liabilities not described above or not separately disclosed in the above tables the fair value approximates to their carrying amounts.

Fair Value of non financial assets measured at fair value

The fair value of properties held for own use and investment properties is based on valuations by independent qualified valuers and categorised as Level 3 (refer to Note 5.10.).

43. SEGMENTAL ANALYSIS

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

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

The table below presents income, expenses, impairment losses on financial instruments and non financial assets, profit/(loss) before share of results of associate company, share of results of associate company and taxation and information on assets, liabilities, equity-accounting investment in associate company and capital expenditure regarding the Group's operating segments.

43. SEGMENTAL ANALYSIS (continued)

	Banking & Financial services		Insurance Services		Intersegment transactions/balances		Total	
	2019 €'000	2018 €'000	**2019 €'000**	2018 €'000	**2019 €'000**	2018 €'000	**2019 €'000**	2018 €'000
Turnover	**464.836**	340.161	**22.936**	16.900	**(7.731)**	(4.619)	**480.041**	352.442
Of which: Third parties revenue	***459.130***	*335.542*	***20.911***	*16.900*	**-**	-	***480.041***	*352.442*
Of which: Inter-segment revenue	***5.706***	*4.619*	***2.025***	-	***(7.731)***	*(4.619)*	**-**	-
Net interest income	**301.229**	184.082	**22**	99	**4**	-	**301.255**	184.181
Net fees and commission income/(expenses)	**63.079**	51.952	**(5.732)**	(3.177)	**(6)**	(11)	**57.341**	48.764
Net gains/(losses) on disposal and revaluation of foreign currencies and financial instruments	**10.030**	27.319	**634**	(224)	**-**	-	**10.664**	27.095
Other income/(expenses)	**17.652**	16.178	**19.763**	15.217	**(2.026)**	(2.262)	**35.389**	29.133
Total net income	**391.990**	279.531	**14.687**	11.915	**(2.028)**	(2.273)	**404.649**	289.173
Staff costs	**(121.455)**	(82.537)	**(5.232)**	(5.023)	**-**	-	**(126.687)**	(87.560)
Depreciation and amortisation	**(21.884)**	(10.972)	**(385)**	(230)	**113**	-	**(22.156)**	(11.202)
Administrative and other expenses	**(121.948)**	(99.408)	**(2.572)**	(3.250)	**361**	141	**(124.159)**	(102.517)
Total expenses	**(265.287)**	(192.917)	**(8.189)**	(8.503)	**474**	141	**(273.002)**	(201.279)
Profit/(loss) from ordinary operations before impairment losses on financial instruments and non financial assets	**126.703**	86.614	**6.498**	3.412	**(1.554)**	(2.132)	**131.647**	87.894
Impairment losses on financial instruments	**(23.762)**	(67.385)	**603**	53	**(87)**	94	**(23.246)**	(67.238)
Impairment losses on non financial assets	**(13.305)**	(1)	**(182)**	(1.215)	**-**	-	**(13.487)**	(1.216)
Profit/(loss) before share of results of associate company and negative goodwill	**89.636**	19.228	**6.919**	2.250	**(1.641)**	(2.038)	**94.914**	19.440
Share of results of associate company net of taxation	**1.524**	2.171	**-**	-	**-**	-	**1.524**	2.171
Negative goodwill	**-**	297.866	**-**	-	**-**	-	**-**	297.866
Profit/(loss) before taxation	**91.160**	319.265	**6.919**	2.250	**(1.641)**	(2.038)	**96.438**	319.477
Taxation	**12.684**	1.285	**(694)**	(709)	**-**	-	**11.990**	576
Profit/(loss) after taxation	**103.844**	320.550	**6.225**	1.541	**(1.641)**	(2.038)	**108.428**	320.053
Total assets	**16.189.562**	16.045.251	**127.556**	92.373	**(9.567)**	(11.438)	**16.307.551**	16.126.186
Total liabilities	**15.125.012**	15.253.721	**114.830**	58.888	**(8.992)**	(10.970)	**15.230.850**	15.301.639
Equity-accounted investment in associate company	**7.826**	8.997	**-**	-	**-**	-	**7.826**	8.997
Capital expenditure on property, right of use assets, plant & equipment and computer software	**104.560**	11.412	**2.391**	203	**(697)**	-	**106.254**	11.615

44. ECONOMIC ENVIRONMENT

Economic Environment and Group operations in Cyprus
Cyprus has achieved an impressive turnaround following the 2013 economic crisis as the recovery continued strengthening for twenty consecutive quarters. After four consecutive years of robust growth, the Cyprus economy grew an annual 3,2% in 2019. From a sectoral point of view, growth in 2019 was mainly attributed to the sectors: Hotels and Restaurants, Retail and Wholesale Trade, Construction, Manufacturing, Professional, Scientific and Technical Activities and Administrative and Support Service Activities. Negative growth rate was recorded by the sector Financial and Insurance Activities.

For the period of January – December 2019 revenue from tourism is estimated at €2.683 million compared to €2.711 million in the corresponding period of 2018, recording a decrease of 1%. For the period of January – December 2019 arrivals of tourists totalled 3.976 thousand compared to 3.938 thousand in the corresponding period of 2018, recording an increase of 1%.

The course of the steady recovery path is reflected in the labor market, which tends to follow the recovery with a time lag. The gradual de-escalation of the unemployment rate in Cyprus is mainly due to the increased employment rate of the last two years. In February 2020, the unemployment rate declined further to 5,8% of the labor force, recording a decrease compared to the same month of the previous year (7,5%). For the period January – December 2019, inflation increased by 0,5% compared to the same period last year.

Public finances have been consolidated to a large extent to secure the sustainability of public debt. The preliminary General Government fiscal results for the period of January – December 2019 indicate a surplus of €603 million (2,8% of GDP), compared to a deficit of €926 million for the corresponding period of 2018 (-4,4% of GDP). The January – September 2018 deficit includes the cost of the Cyprus Cooperative Bank-Hellenic Bank deal for the month of September 2018. The Cypriot banking sector downsized significantly as a result of the Bank's acquisition of certain assets and liabilities of ex-CCB, the carve out of ex-CCB's non-performing portfolio and the sales of loan portfolios by Hellenic Bank, Alpha Bank Cyprus and Bank of Cyprus. At the same time, the banking regulatory and supervisory framework have been significantly strengthened. Banks continue to make progress in reducing their non-performing loan portfolios. In September 2019, problem loans have been reduced by 65% to €9,5 billion from a peak of €27,8 billion, a circa €18 billion decrease, equivalent to around 85% of the country's GDP.

The housing market continued its adjustment during the second quarter of 2019 bringing the cumulative fall in prices since mid-2008 to approximately 28% (Central Bank of Cyprus's Residential Property Price Index (RPPI)). In the second quarter of 2019, the RPPI recorded a positive growth rate of 2,8%. According to data from the Department of Land and Surveys, property sales recorded a new increase during 2019. Specifically, sales contracts submitted increased to 10.366 versus 9.242 in the previous year, recording an annual increase of 12%.

The economic recovery along with the improved domestic financial conditions have created and maintained an environment of improved confidence in the Cypriot banking industry. International credit rating agencies have provided and confirmed during the year higher credit ratings for Cyprus and the country's largest domestic banks. In September 2018, Standard and Poor's upgraded Cyprus' long-term credit rating "BBB", placing the economy on an investment grade after six years. Subsequently, in October 2018, Fitch upgraded the rating for the Cyprus sovereign to "BBB" from "BB+", affirming in April 2020, changing the horizon from positive to stable, amid the impact on the economy of the coronavirus (COVID-19) pandemic outbreak. In September 2019, Moody's Ratings affirmed the rating for Cyprus sovereign to "Ba2", two notches below investment grade, while changed the outlook from stable to positive.

44. ECONOMIC ENVIRONMENT (continued)

Taking advantage of market conditions, in January 2020, the Republic of Cyprus successfully launched a dual tranche transaction (in total €1,75 billion), consisting of a €1.000 million 10-year bond (yield 0,73%) and a €750 million 20-year bond (yield 1,33%). Also, in 7 April 2020, the Republic of Cyprus successfully launched an additional dual tranche transaction (in total €1,75 billion), consisting of a €1.250 million 7-year bond (yield 1,5%) and a €500 million 30-year bond (yield 2,3%).

Cyprus' macroeconomic outlook is positive and is accompanied by a significant increase in real gross domestic product during 2019, robust employment growth and further improvement in key domestic indicators. Growth is expected to be supported by private consumption and investment and by an improving and robust labour market. Public expenditure is also expected to contribute positively to growth through higher investment expenditures. In the medium-term, the outlook of the economy is positive and growth is expected to continue albeit at a slower pace near its long-term average.

Despite the important steps taken towards restoring the positive economic climate, some degree of uncertainty remains, as the country still has certain issues to resolve, such as the high level of NPEs, and high unemployment and the high private and public debt, which are however on a steady declining trend. With regard to high public debt, the risks are mainly linked to the potential fiscal impact of Court rulings on past fiscal reforms and the financing needs of public hospitals during the first years of the national health system. The high level of NPEs, continue to pose significant risks to the stability of the domestic banking system and to the outlook for the economy.

From an exogenous perspective, the economic outlook may be negatively influenced due to slower than expected growth in Europe and the UK, the impact of the coronavirus on the global economy as well as from rising geopolitical tensions in the Middle East and Eastern Mediterranean, which could trigger adverse spillovers to economic confidence and consequently to the aggregate economic activity. In addition, downside risks may result from weaker-than-expected demand for tourist services due to renewed Brexit-related uncertainty regarding the future relationship of the UK with the EU. Additionally, developments over a potential reunification of Cyprus along with the exploitation of Cyprus' natural resources are being closely monitored to assess potential prospects and risks as they are evolving.

According to the baseline macroeconomic scenario, growth is expected to be 3% in 2020 (macroeconomic forecasts have not incorporated any effects from the coronavirus outbreak) and 2,8% in 2021. The pick-up in domestic demand is expected to be reflected in improved labor market conditions with unemployment decreasing to 6,5% in 2020 and 6,1% in 2021. Inflation in 2020 is expected to remain at relatively low levels, at around 1,2% in 2020 and 2021.

The above macroeconomic forecasts for 2020 are likely to be significantly negatively affected due to the recent outbreak of the coronavirus pandemic. The total extent and duration of the coronavirus economic impact are highly uncertain, but it is expected to be temporary. The outbreak is expected to have a significant negative economic impact mainly on the first and, to a lesser extent on the second half of 2020. The Cyprus economy is expected to start rebounding in the fourth quarter of 2020, as confidence returns. As the outbreak will eventually dissipate, the economic activity in Cyprus should accelerate and remain robust in line with the Bank's baseline projections.

The Bank monitors closely the developments in the Cypriot, European and Global economic environment and assessing the situation as it is evolving and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead.

44. ECONOMIC ENVIRONMENT (continued)

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. During the third quarter of 2019, its size has been reduced to a moderate 2,7 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. Through the creation of the first debt servicing platform in the Cypriot market, the Bank is continuing the efforts for effectively resolving its NPEs in an accelerated way and with higher recoveries, leveraging on the knowhow, proven expertise and technical experience of APS Holding. Furthermore, the debt servicing platform allows the Bank to better allocate its resources on managing and growing the performing loan portfolio, by using its excess liquidity to the benefit of the market, as well as on continuing its digital transformation journey, the optimisation of corporate governance and the adaptation to the expanding compliance framework.

The Bank maintains sufficient liquidity which allows the exploitation of opportunities, maintaining its focus on organic growth. The focus of new loans will be to companies that increase the competitiveness and productivity of the country, such as in the sectors of retail and commercial activities, education, health, manufacturing, tourism and shipping by targeting specific customer profiles. At the same time, loans to the retail sector will be geared toward mortgages, small loans to new customers and supporting current customers who are deemed viable.

The Bank is on a solid footing and, importantly, during the last two years has become more robust and better equipped to withstand challenges. The Bank stands ready to support its clients, households and businesses, who will be affected by the coronavirus.

45. DEPOSIT INSURANCE SCHEMES

European Deposit Insurance Scheme (EDIS)

As of 1 January 2016, the European Union within the Banking Union framework has put forward a third pillar, a deposit insurance scheme (EDIS-European Deposit Insurance Scheme) which will gradually fully finance the protection of bank deposits supported by a close cooperation with national Depositors' Guarantee Scheme (DGS). The EDIS proposal builds on the system of national deposit guarantee schemes (DGS) regulated by Directive 2014/49/EU. The first pillar of the Banking Union consists of a common framework for supervision of banks implemented by the Single Supervisory Mechanism (SSM); the second pillar consists of a common framework for bank resolution implemented by the Single Resolution Mechanism (SRM).

EDIS is established in three specified stages:

- The first stage is a re-insurance scheme and is applied 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.

45. DEPOSIT INSURANCE SCHEMES (continued)

- The second stage would be a co-insurance scheme and would apply for 4 years until 2024. For this phase, a national scheme would not have to be exhausted before accessing EDIS. EDIS will contribute from first euro of loss and would absorb a progressively larger share of any losses over the 4-year period in the event of a pay-out or resolution procedure. Access to EDIS would continue to be dependent on compliance by national DGS with the required funding levels.

- In the final stage, EDIS would fully insure deposits and would cover all liquidity needs and losses in the event of a pay-out or resolution procedure.

The SRM provides that the Single Resolution Fund (SRF) will be built up over a period of 8 years with “ex-ante” contributions from the banking industry.

The contribution of the Bank to the SRF for 2019 amounted to €1,6 million and was paid in June 2019 and was netted off with the Special Levy for 2019. Special levy is imposed on credit institutions on a quarterly basis, at the rate of 0,0375% on qualifying deposits held on 31 December, 31 March, 30 June and 30 September.

National Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS)

The Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS) was established in Cyprus as a separate legal entity and has been operating since 2000 under the relevant legal framework; the Deposit Guarantee and Resolution of Credit and Other Institutions Scheme Laws of 2016 and 2018 (the “Law”), and the Regulations therein and the Resolution of Credit and Investment Firms Law of 2016. For the purpose of the Scheme a Committee was established, consisting of representatives from the Ministry of Finance and the Central Bank of Cyprus.

The purpose of the DGS is twofold: to compensate the depositors of covered institutions which pay contributions, in the event that a credit institution is unable to repay its deposits, up to the guaranteed amount of €100.000 (subject to certain other circumstances); and the funding of the implementation of resolution measures.

The EU system of DGSs has been strengthened in recent years. Under this new funding model, member banks pay a levy every year into their national DGS fund, and that money remains available (the “available financial means”) in case the DGS needs it to protect depositors if a bank fails. A target is set through the Deposit Guarantee Schemes Directive (DGSD) whereby each Member State is required to raise available financial means into their DGS funds equal to at least 0,8% of the amount of the covered deposits of its members by 3 July 2024 (subject to extensions). The contribution amount to be paid by each credit institution is calculated by the DGS taking into account its covered deposits and the degree of risk incurred. The contribution must be paid within 21 business days from the date on which the institution is notified in writing by the Committee to pay the contribution.

As notified by the Management Committee (MC) of the DGS on 23 March 2020, the MC at its last meeting approved a methodology, for the calculation of risk based contributions (RBC) to the DGS (refer to CBC website). The approved methodology provides for the calculation and payment of contributions by authorized credit institutions to the DGF (Deposit Guarantee Fund) on a semi - annual basis. The MC of the DGS will be collecting contributions from the credit institutions between the year 2020 to 2024, in order to reach the target of the 0,8% of covered deposits of all authorized Credit Institutions by 3 July 2024 in line with the relevant legislation and EU Directive. Furthermore, the MC notified the amount of RBC attributable to the Bank for the first six-month period of 2020, with the data used for the calculation being related to the reference date 31 December 2018. As a result, the Bank by 27 April 2020 contributed to DGS an amount of €2,4 million, which in line with IFRSs, will be charged to the first quarter of 2020.

46. 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 has received a formal notification from the Single Resolution Board (SRB), of its final decision for the binding minimum requirement for own funds and eligible liabilities (MREL) for the Bank. Accordingly, based on financial and supervisory information as at 31 December 2018, the Bank is required to comply with the level of 9,47% of its consolidated total liabilities and own funds (TLOF) of €14.276.098.364 as at 31 December 2018, by 31 December 2025. The MREL requirement is calculated by the Bank as 28,5% of risk weighted assets. Based on SRB's eligibility criteria currently in effect and on the Bank's internal estimate, the Bank's MREL position was estimated at 22,6% of risk weighted assets at 31 December 2019.

The SRB decision is based on current legislation and on the Bank's financial position as at 31 December 2018, with the Bank required to comply with the MREL requirement over a period of almost six years. Thus, it is expected that the requirement may change over time due to: (a) possible changes in regulatory capital requirements and/or (b) changes in the financial position of the Bank (such as changes in RWAs, own funds, non performing exposures). The Bank anticipates that the MREL requirement will be assessed and set on an ongoing basis.

It is noted that the MREL requirement is aligned with the Bank's expectations and its strategic plan for the period 2020-2022, which provide for the issuance of relevant securities by the Bank for compliance with the MREL requirement by 31 December 2025. Accordingly, the strategic plan for the period 2020-2022 incorporates the issuance of €100 million MREL instruments in 2022.

47. 2020 ECB SREP STRESS TEST

The Bank was selected to participate in the ECB SREP stress test of 2020. As in 2016 and in 2018, in execution of its mandate and in close cooperation with the national competent authorities, the ECB runs two stress-testing exercises in 2020 – the EBA EU-wide stress test and the ECB SREP stress test, to assess the resilience of financial institutions to adverse market developments. The results of these exercises are factored into its overall assessment within the Supervisory Review and Evaluation Process (SREP).

The exercise was launched on the 31 January 2020 but it was postponed by until 2021 to mitigate the impact of COVID-19 on the EU banking sector and to prioritise operational continuity.

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES

48.1.Business Transfer Agreement (BTA)

On 25 June 2018, the Bank signed a business transfer agreement (BTA) for the acquisition of a business from Cyprus Cooperative Bank (CCB) (the “Acquisition”). On 3 September 2018, the Bank announced the completion of the Acquisition (Completion), with effect from 1 September 2018 establishing the Bank as a leading retail and small and medium-sized enterprises bank in Cyprus.

The BTA entailed the acquisition of substantially all the performing business of CCB, including the related business of lending, deposit taking and the provision of other banking services, to the extent comprised of the acquired assets (the "Assets") and the assumed liabilities (the "Assumed Liabilities"), as carried on by CCB (the "Business"). The Assets comprised a portfolio of primarily performing loans, Cyprus Government Bonds, cash and other current assets, while the Assumed Liabilities comprised customer deposits and other current liabilities. The terms of the Acquisition included an asset protection scheme (APS), which provides for CCB to pay to the Bank 90% of the losses incurred on non performing exposures and high risk performing exposures acquired.

Ex-CCB’s obligations under the APS, the BTA and the transitional services agreement between the Bank and the ex-CCB are guaranteed by the Republic of Cyprus (Refer to Note 48.4.).

During the due diligence process, the Bank’s management, together with the Advisers, performed a valuation of the Acquisition perimeter in order to determine the fair value of the Assets and Assumed Liabilities using the information made available to them. That information, together with additional more recent summarised information provided to the Bank by CCB, was used by the Bank and its Advisers to set a target asset value of €247 million (the "Target Asset Value"). The valuation results used to conclude the terms of the final offer submitted are management estimates, estimated prior to the execution of the BTA.

The Bank agreed to pay CCB €74,2 million in cash as consideration for the transfer of this Target Asset Value. As announced on 25 June 2018 and with reference to 31 December 2017 figures, the balance sheet (before fair value and other adjustments) comprised of a portfolio of primarily performing loans (net loans: €4,6 billion), Cyprus Government Bonds (€4,1 billion), cash (€1,6 billion), customer deposits (€9,7 billion) and certain other current liabilities and assets. In accordance with the BTA, the ex-CCB provided the Bank with updated financial information regarding the Assets and Assumed Liabilities within 10 business days from the date of Completion for the Bank to proceed with a valuation of such items. The Final Asset Value was less than the Target Asset Value, and as a result the perimeter of Assets transferred increased by the amount of the difference and a receivable of €48,5 million was recognised in other assets.

Following the Completion, the Bank performed a Purchase Price Allocation (PPA) assessment which is detailed in Note 48.7. The Group’s independent auditor has expressed an opinion on the PPA in accordance with the International Standards on Auditing (ISA) 805, Special Considerations – Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement. The opinion was addressed to the Bank’s Board of Directors.

48.2.Asset Protection Scheme Agreement (APS)

On 3 September 2018, the Bank and CCB entered into the APS Agreement to protect €2.300 million of the acquired loan portfolio (fair value) against future losses, with the Republic of Cyprus providing a direct guarantee to the Bank of ex-CCB’s obligations under the APS Agreement (Refer to Note 48.4.). This provides for ex-CCB to pay to the Bank 90% of the losses that the Bank incurs in connection with defined pools of loans and receivables (APS Assets) which are part of the Assets. The Bank’s losses in respect of the APS Assets include impairment losses, losses on sale and costs of recoveries.

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

The APS Assets were classified into two pools:

1) APS Pool 1 (APS1): Assets with fair value of €1.386 million and a 12-year duration coverage from the Completion Date with an option to extend by a fixed 2-year period; and

2) APS Pool 2 (APS2): Assets with a fair value of €915 million and a 10-year duration coverage from the Completion Date with an option to extend by a fixed 2-year period. The gross value of APS Assets in APS2 (€985m) is already within the prescribed ceiling, as determined in the APS Agreement. These ceilings require the gross exposure of assets under Pool 2 to not exceed:

a) €1.100 million by the third anniversary of the Completion

b) €750 million by the fourth anniversary of the Completion

c) €500 million by the fifth anniversary of the Completion

Guarantee fee payable
The Bank must pay certain fees to the Republic of Cyprus in connection with the APS Agreement. An admission fee of €15 million is payable on the first anniversary of Completion. On the second anniversary of Completion, the Bank can elect to either withdraw €250 million of APS Assets or pay a guarantee fee of €17 million. On the third anniversary of Completion, the Bank can elect to either withdraw €350 million of APS Assets or pay a guarantee fee of €23 million. For each subsequent anniversary of Completion until the eleventh anniversary, the Bank must pay a guarantee fee of €1 million (8 payments in total). If the Bank elects to exercise its options to withdraw assets from the APS, then the guarantee fees payable would be reduced compared to if the Bank opts to keep such assets within the APS, and would therefore facilitate a gradual wind down of the APS across its lifetime. Additionally, the Bank may exercise the option to withdraw assets partially, in which case the guarantee fee payable would be calculated pro rata on the residual non-withdrawn amount. It is in the Bank's discretion to select which APS Assets it would withdraw from the APS in the case that the Bank elects to exercise any or both options to withdraw assets. The maximum amount of fees payable to the Republic of Cyprus would be an amount equal to €63 million.

48.3.Transitional Services Agreement (TSA)

On 3 September 2018, the Bank and CCB entered into a transitional services agreement (TSA). The TSA governs the provision of certain services from ex-CCB to the Bank, including Central Unit Operations, Front Line Operations, Front Line Credit and Information Technology to assist in the orderly transition of the Business into the Bank's ownership (Services).

The agreement entailed certain provisions with regards to the properties owned by CCB and those leased from third parties and which were used by the Bank as part of its operations. Rental cost in relation to these is presented in administrative expenses (Note 13) under "operating leases of land and buildings".

The TSA contained detailed provisions governing the relationship between the parties in delivery of the Services (including agreed migration principles and the creation of a migration plan, as well as governance arrangements) and obligations of ex-CCB to follow the Bank's instructions and comply with the Bank's mandatory policies in delivery of the Services.

The TSA commenced on the date of Completion and ended on the date that is 15 months after that date. The Bank could terminate the TSA or any of the individual Services (in whole or in part) at any time throughout the life of the TSA by giving not less than 20 business days (as defined in the TSA) written notice to ex-CCB.

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

48.4.Government Guarantee

A Deed of Guarantee (DoG) was entered between the Bank and with the Republic of Cyprus (RoC) in respect of certain obligations of CCB and its subsidiaries under the Acquisition Documents.

Pursuant to the Deed of Guarantee, the RoC guarantees payments by a member of CCB’s group, when due, of all amounts payable by them to the Bank, each member of the Group, their successors and assigns, and their respective officers and employees (“Beneficiaries”) under the Acquisition Documents. The RoC has also undertaken to ensure and guarantees punctual performance by CCB and any relevant member of CCB’s group, when due, of all of their obligations under or pursuant to the APS, the BTA and the transitional services agreement.

The RoC agrees that if and each time that a member of CCB’s group fails to make any payment to a Beneficiary when it is due under or pursuant to any of the Acquisition Documents, the RoC must on demand (without requiring a Beneficiary first to take steps against CCB or any other person) pay that amount to the Beneficiary as if it were the principal obligor in respect of that amount.

48.5.Deed of Covenant

The Republic of Cyprus (RoC) has issued (i) €500 million 1,90% p.a. Fixed Rate Bonds due 17/12/2018 (the 2018 Bonds); (ii) €750 million 2,50% p.a. Fixed Rate Bonds due 16 December 2019 (the 2019 Bonds); (iii) €750 million 2,75% p.a. Fixed Rate Bonds due 15 December 2020 (the 2020 Bonds); (iv) €580 million 3,25% p.a. Fixed Rate Bonds due 15 December 2021 (the 2021 Bonds); and (v) €610 million 3,50% p.a. Fixed Rate Bonds due 15 December 2022 (the 2022 Bonds and, together with the 2018 Bonds, the 2019 Bonds, the 2020 Bonds and the 2021 Bonds, the Bonds) which were acquired as part of the Acquisition.

On 27 August 2018 the RoC entered into a deed of covenant (the "Deed") in favour of the holders from time to time of the Bonds (Holders). Pursuant to the terms of the Deed, the RoC irrevocably undertakes to the holders that if it: (a) fails to make any payment under the Bonds when due (whether in respect of principal or interest): (b) seeks to change the terms of the Bonds (whether by a change in law or otherwise); (c) indicates that it will be unable to make any such payment; and or (d) is otherwise in default (howsoever described) under the terms of any of the 2018 Bonds, the 2019 Bonds or the 2020 Bonds (each a "Default") then in each case it will, if so requested by any Holders, issue under the terms of the Republic of Cyprus’ €9 billion Euro Medium Term Note (EMTN) programme an equivalent face amount of new EMTN bonds in exchange for and with the same commercial terms as the 2021 Bonds and 2022 Bonds, to the holders of the existing 2021 Bonds and 2022 Bonds.

The Deed further provides that if the RoC fails to issue such new EMTN Bonds within five Business Days in London and Cyprus following receipt of any such request, all of the Bonds shall become immediately due and repayable. The RoC agrees that a Holder may assign its rights under the Deed in whole or in part.

EMTN Bonds issued under the RoC’s’ €9 billion EMTN programme are governed by English law and held through Euroclear and Clearstream.

48.6.Acquisition-related costs

The Group incurred €10,2 million on consultancy and other professional services in respect to the acquisition of assets and liabilities of CCB. These costs were included in "administrative expenses".

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

48.7.Identifiable assets acquired and liabilities assumed

In accordance with IFRS 3 (Refer to Note 2), all identifiable assets and liabilities acquired were measured at their fair value at the time of Acquisition. These fair values also represented the amounts upon initial consolidation. The difference between the purchase price and the balance of assets and liabilities acquired and measured at fair value was recognised as negative goodwill in the income statement, and directly increases the equity of the Bank.

With the initial target asset value of €247 million, the difference between the purchase price and the balance of assets and liabilities acquired was estimated at €172,8 million. Following the Completion of the Acquisition, the Bank, with the assistance of independent Advisers, performed a purchase price allocation assessment based on additional information made available to them and in accordance with IFRS.

The following overview shows the PPA in accordance with IFRS 3 as at the time of acquisition. For the allocation of the acquisition cost, the Group applied the rules of IFRS 3, adjusting the assets and assumed liabilities of the acquired business at their fair values.

	31 August 2018 €'000
Cash and balances with Central Banks	**985.662**
Placements with other banks	**28.840**
Loans and advances to customers	**4.039.841**
Debt securities	**4.109.060**
Equity and other securities and collective investment units	**1.402**
Intangible assets	**12.164**
Deferred tax asset	**3.136**
Other assets	**160.033**
Total assets on boarded	**9.340.138**
Deposits by banks	**107.169**
Customer deposits and other customer accounts	**8.779.322**
Deferred tax liability	**45.689**
Other liabilities	**35.892**
Total liabilities on boarded	**8.968.072**
Net assets	**372.066**
Purchase price	**(74.200)**
Negative goodwill	**297.866**

The gross contractual amount of loans and advances amounted to €4.458 million (€418 million were expected to be uncollectible at the acquisition date).

Other assets included indemnification assets of €78.435 thousand, a receivable from ex-CCB arising from the difference between the Final Asset Value less the Target Asset Value as per the BTA of €48,5 million (refer to note 48.1.) and a receivable from ex-CCB relating to the Deposit Guarantee Scheme. The estimated undiscounted amount for the APS claims amounted to €71 million.

Other liabilities included off balance sheet exposures of €25.081 thousand.

Other assets and other liabilities, consisted of items in transit as of the Completion Date.

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

Taking into account the purchase price of €74,2 million, the transaction led to an increase in total net assets, as shown in the consolidated statement of financial position, in the amount of negative goodwill of €297,9 million.

The acquired assets and liabilities summarised in the table above did not represent the entire balance sheet of CCB's business. For this reason, it was not practical to reliably determine the carrying amount of the assets and liabilities in the pre acquisition books of CCB.

It was also impracticable to disclose the profit or loss of the acquired business since the acquisition date. The acquired business was integrated into the corresponding existing business lines and there was no reliable basis for allocating post acquisition results between the acquirer and the acquiree. Similarly, it was impracticable to disclose the revenue and profit or loss of the combined entity as though the acquisition date had been 1 January 2018. Only parts of CCB's business, and specified assets and liabilities, were acquired. There was no reliable basis for identifying the proportion of the pre acquisition results of CCB that related to the business acquired by the Group.

48.8.Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation techniques
Loans and advances to customers	The fair value of the loans and advances to customers was estimated using the Income Approach in accordance with IFRS 13. More specifically, a collective assessment approach was adopted estimating the present value of cash flows based on homogeneous pools of loans (in terms of credit risk characteristics). Expected cash flows of these loans were estimated using PD and cure rates informed from the realized historic default and cure rates of CCB, compared to the Bank's equivalent historic data. Collateral parameters were aligned with those of the Bank by type of property. Expected cash flows have been discounted with a required rate of return comprised of liquidity risk premium, operational cost and cost of capital (performing/default). The collective assessment has been performed in respect of the on balance exposure of the Loan Book.
Government bonds	The market valuation approach was applied in the case of the CyGB using the matrix pricing technique. Specifically the closing yield curve of the international CyGBs (EMTN) as at the closing of 31 August 2018 was used applying at the same time the market driven required liquidity premium.
Off Balance Sheet Exposures	The fair value of the off-balance sheet exposures was estimated using the Income Approach in accordance with IFRS 13. More specifically, a collective assessment approach was adopted estimating the present value of cash flows based on homogeneous pools of loans (in terms of credit risk characteristics). Expected cash flows of these loans have been discounted with a required rate of return comprised of cost of capital, cost of borrowing and servicing cost of the average market participant (as per IFRS13 Fair Value Measurement).

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

Assets acquired	Valuation techniques
Indemnified Assets	The fair value of the indemnification asset was estimated using the Income Approach in accordance with IFRS 13. Asset Protection Scheme: The fair value was estimated as the sum of: a) The Present Value of claims to be made by the Bank to the Republic of Cyprus in the event of APS Losses. The claims and timing of these claims have been estimated depending on the initial performance status of each loan. All calculations are made on an asset by asset basis. The evolution of the present value of the claims is aligned with the evolution of the fair value of the loans covered by the APS. b) The Present Value of fees payable from the Bank to the Republic of Cyprus (admission fee and guarantee fees as described in Note 48.2.). Off-balance sheet exposures: The fair value was estimated on: a) The estimated losses arising from the off-balance sheet exposures without an on-balance sheet amount as at 31 August 2018. b) The estimated losses arising from the off-balance exposures of credit cards with an on-balance sheet amount as at 31 August 2018. The above were considered to be indemnified and collectible in full taking into account that the counterparty is the RoC.
Intangible Assets	TSA agreement: The Fair Value has been estimated by applying the income approach, whereby the total personnel and administration costs over the 15-month duration of the TSA (equal to the expected economic benefit) are discounted to PV using a discount rate that is adjusted for the risk premium that market participants would require (Bank's cost of equity). Core deposits: The Fair Value has been estimated by applying the income approach, whereby cash flows (equal to the future economic benefit) are discounted to PV using the cost of equity of the average market participant (Bank's cost of equity). Purchased credit cards and overdrafts: The Fair Value has been estimated by applying the income approach, whereby cash flows (equal to the future economic benefit) are discounted to PV using the cost of equity of the average market participant (Bank's cost of equity).

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

Assets acquired	Valuation techniques
Deposits	Term / fixed deposits: The Fair Value of Term Deposits has been estimated using the income approach and considering the future cash outflows that a market participant would expect to incur in fulfilling the obligation. Specifically, contractual cash outflows associated with Term Deposits, have been discounted using a discount rate that reflects the average market participant's required, risk adjusted return. The outcome of the valuation carried out was then compared to the contractual balance of the deposits. Since the difference between the results of the valuation technique and the contractual balance was insignificant, the contractual balance of the deposits was used. Short-term deposits: Deposits with on-demand features and very short-term maturities (i.e. Current Accounts and 2 & 7 days Notice Accounts) were assumed to be payable immediately.

48.9.Integration of the Acquisition

After the Acquisition, a full-scale plan for the integration of the acquired Business was developed and approved through the project's governance and the Bank's Board of Directors. This comprised an analytical plan with detailed Integration activities of 14 workstreams (6 Core Integration Teams, 4 Support Teams and 4 Control Functions). It also comprised an integration budget. The plan was launched and completed with the assistance of international specialised advisors.

The integration planning and governance entailed the design of a detailed IT integration plan, the planning of systems and data migration, the set up of a fully Operational Integration Governance involving specialised work streams such as Integration Management Office, IT Steering Committee, Executive Integration Steering Committee and Board Integration Committee.

An effective implementation of the plan took place over 12 months. During the execution phase, infrastructure was expanded and tested to ensure that systems perform well given the anticipated increased volume and four Go Live Rehearsals and three Full Dress Rehearsals were completed.

Timelines were followed strictly and exactly. To ensure that the project progressed as planned 5 Checkpoints were set at strategically selected points in time to assess progress. Progressively the Checkpoints reviewed the progress of the Plan, the progress of the main Integration activities (technology or business), the results of the (three) Full Dress Rehearsals and the Readiness/ Decision to Go Live. The results of the Checkpoints were used as the basis to re-assign priorities, focus and resources to the areas that needed attention.

The Main Rollout weekend activities started on Friday 13th of September at 11:30. The Main Rollout weekend activities were governed by a complex activities Schedule, containing over 1000 activities. Activities were managed by a dedicated Command & Control Centre. Throughout the weekend, regular progress status updates were communicated and three Integration Steering Committees were held to take staged Go Live decisions.

48. SUMMARY OF THE KEY TERMS OF THE ACQUISITION AND THE RESPECTIVE ASSETS ACQUIRED AND ASSUMED LIABILITIES (continued)

The process of integrating the operations of ex-CCB into HB systems was executed smoothly. Any issues arising were handled by dedicated help desks and a war room as part of the Post Go Live Support and Incident Reporting Governance that was set up.

The branches opened to the public on the morning of 16 of September and no major problems were encountered. Performance of systems was smooth resulting in all customers being served from any branch. The digital channels opened on the afternoon of Sunday 15 of September. Information regarding the Integration was continuously communicated to customers via HB's website and social media channels. Additionally, the Customer Contact Center was fully engaged in assisting customers and answering queries.

49. RISK MANAGEMENT

49.1 Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:
- Credit risk
- Market and Liquidity risks
- Operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the management of the Group's capital.

49.2 Risk Management

The management and monitoring of all Group risks are centralised under a single division to which the following specialised risk management departments report:
- Credit Risk Management
- Market and Liquidity Risk
- Operational and Emerging Risk
- Risk Analytics
- Enterprise Risk Management & Governance
- Credit Monitoring & Control
- Credit Analysis & Evaluation
- Insurance Risk Management

These departments report to the Risk Management Unit (RMU), which is functionally independent from other units with executive authority and reports to the Board of Directors (BoD), through the Board Risk Management Committee (BRMC), as well as to the Chief Executive Officer.

The departments cover all risk areas across the Group's operations and are intensively working to ensure that the Bank fully conforms to the provisions of the Accord of Basel III, the Directives of the regulatory authorities and international best practices. This is facilitated by the Enterprise Risk Management & Governance unit which serves as a horizontal function, whose primary aim is to facilitate in co-operation with other risk departments, the development and review of risk management frameworks and policies for the management of individual risks, co-ordinate and drive cross-departmental and departmental projects and enhance the management and monitoring of risks.

During 2019, the Board of Directors approved a revised Risk Appetite Framework (RAF) developed by the Risk Management Unit in line with international standards and best practices. The new RAF is part of the broader Enterprise Risk Management Framework and prescribes the process for risk appetite setting, feeding from the formulation of Material Risk Assessment and with a direct input into the Strategic Plan, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP). The framework encompasses both quantitative and qualitative limits across an array of the risk types facing the Bank and delineates responsibilities for its implementation, monitoring and governance (which also entails a breach escalation framework) in line with the Three Lines of Defence model and the Enterprise Risk Management Framework.

Further to the above changes, in December 2019 the duties of the Risk, Strategy Capital and Analytics (RSCA) have been segregated into 1st and 2nd line of defence, in order for the Bank to adhere to industry best practice and regulatory guidelines. It was agreed that part of the existing activities of the set department remain within RMU and the department is re-named as Risk Analytics (with suitable segregation of duties and changes in both teams' Terms of Reference).

49. RISK MANAGEMENT (continued)

49.2 Risk Management (continued)

The changes aim to enhance the organisation of Risk Management unit and to reinforce the role of the second line of defence throughout the risk management cycle, with a special focus on the Bank's material risks.

49.3 Credit risk

Credit risk is the risk of financial loss to the Group if a customer and/or other counterparty to a financial instrument fail to meet their contractual obligations. This risk principally arises from lending, trade finance activities and treasury operations. The management of credit risk is one of the most important chapters in the Group's operation and is essential for its long-term soundness.

Credit Risk Management

Credit Risk Management is responsible for detecting, evaluating, measuring and observing/controlling credit risk, based on the strategic objectives of the Bank.

During 2019 Credit Risk Management:

- Formulated and reviewed a number of credit risk related policies which were approved by the BoD. In general, credit risk related policies are reviewed and updated frequently to reflect any changes in the Group's risk appetite and strategy, the prevailing market environment/economy and Regulatory requirements.
- Monitored the loan portfolio of the Bank through the preparation of reports to both the Executive Management of the Bank and BRMC.
- Validated Individual Assessments of borrowers for impairment and challenged assumptions used for the calculation of expected credit losses (impairments). Prepared quarterly presentations of impairment results to the Impairment Committee and to the Board Audit Committee.
- Assessed and reported the composition and quality of the credit portfolio including non-performing and forborne portfolio of the Bank and proposed corrective measures for the improvement of the portfolio quality and the mitigation of credit risk.
- Submitted reports to the CRO, the CEO and/or the Executive Enterprise Risk Management, the Compliance and Information Security Committee and the BRMC for briefing on individual topics that may be included in the reports and suggestions were made towards the mitigation of credit risk.
- Assessed and monitored of the composition and the quality of the portfolio per industry, individual, country, purpose of lending concentrations.
- Has participated in the setting of Risk Appetite Framework/Risk Appetite Statement through the recommendation of specific quantitative and qualitative metrics. Credit Risk Management quarterly 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.

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

- Submitted Regulatory reports (regular and ad-hoc) to the Central Bank of Cyprus and to the Single Supervisory Mechanism (SSM).

- Participated in the Integration process of the activities of the acquired ex-CCB portfolio.

- Continued to monitor Concentration within the Bank's loan portfolio, in accordance with the Concentration Policy and the relevant metrics set by the Risk Appetite Statement, which includes industry and single borrower concentration limits and relevant reports were provided both to the Executive Management of the Bank and the BRMC.

Credit Monitoring & Control

The Bank maintains an independent Credit Monitoring & Control Unit within Risk Management Unit (second line of defence) to monitor and control increased credit risk of the Bank's credit portfolio through early warning Indicators. The function of the Unit is performed through in-depth analysis of the Bank's portfolio and its segments, as well as through reviews of individual clients/groups, to identify areas of increased credit risk. These increased credit risk areas are then monitored and controlled through key risk indicators until they are reduced within tolerance limits. The depth of the monitoring of the portfolio depends on the materiality and significance of the credit risk area.

During 2019, Credit Monitoring & Control has been closely monitoring the credit risk of the Bank's portfolio. For the Bank legacy portfolio though, the monitoring was performed through the early warning status indicators based on behavioural scoring models introduced at the end of the first quarter. Monthly Watch List Reports were issued regarding the risk profile of the portfolio assessed which were presented to the Senior Management. After the integration of the systems in September 2019, the monitoring of the portfolio through early warning status indicators was performed for the complete Bank portfolio.

Furthermore, during the year the Unit proceeded with the re-engineering of the Bank's Arrears Management Framework and Arrears Management Cycle Policy to promptly identify through early warning triggers and behavioural scoring models credit exposures with incremental credit risk. According to the significance and materiality of the borrowers' credit risk they will be allocated to the appropriate specialised Remedial Units. These Units will promptly take the necessary action to mitigate the risk of potential defaults and simultaneously increase recoveries to drive the Bank's non performing exposure (NPE) ratio to the desired levels.

Credit Analysis and Evaluation

The Unit provides independent second line of defence advice and recommendations to Loan Approval Committees for Corporates, SME's, International Lending and Shipping, credit proposals and advise on appropriate risk mitigation measures for existing and new proposed loan and guarantees transactions. During the period under review the department was enhanced with Shipping as well as Factoring officers with international work experience.

Additionally, the Unit reviews the Arrears and Property Management cases proposed by APS (service provider for NPLs) and the Business Advisory Support Unit and provides advice and recommendations to the relative committee. Moreover, the Unit performs credit counterparty risk assessment for treasury limits/ settlement and international lending transactions, in line with the Bank's Investment Framework.

The Bank's Treasury portfolio remains positioned mostly in countries and/ or banking institutions with a good credit rating.

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

On top of the above, the department performs tasks related with counterparty risk which primarily comprise of the following:

- Monitoring of limits related to the Bank's Investment Framework (HBIF), including Treasury's investment in bonds, International Lending investments in syndicated loans, country and counterparty limits, and reports any limit breaches;
- Analysing and assessing requests by Treasury, International Lending, Financial Institutions or SWIFTon country, sovereign, financial institutions and any other counterparty to be submitted to Assets and Liabilities Management Committee (ALCO)/BoD for approval;
- Allocation of HBIF's country limits and bank limits to the various departments and communication of this to ALCO; and
- Provides counterparty risk related metrics in the spectrum of review ISDA and CSA agreements.

Risk Analytics

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

To achieve the above, sophisticated systems are employed to evaluate existing/potential borrowers' creditworthiness and to measure credit risk based on quantitative and qualitative criteria:

1. For the Retail sector, a credit risk assessment system is applied for the evaluation of the creditworthiness of customers and the measurement of credit risk (Credit Scoring). This system covers credit cards and other retail lending products.
2. For the Commercial and Corporate sectors, an internal credit rating system (Credit Rating) is applied which classifies companies into credit rating bands, thus assisting both in the assessment of the credit worthiness of a company and in the rationalisation of pricing requirements according to the risk undertaken, while taking into account each company's financial position and various qualitative criteria relating to the company as well as the market in which it operates.
3. For Treasury, there is a centralised management of exposures to countries, financial institutions and other counterparties. Limits are defined based on the Credit Limits Model, which is primarily based on the credit standing of the country and counterparty as determined by the credit ratings of External Credit Assessment Institutions, while also taking into account world and country ranks of counterparties in terms of assets but also specific country ranks.

49.3.1 Exposure to credit risk

49.3.1.1 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.

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

The analysis of concentration of credit risk of the Group at the reporting date is shown below:

	Loans and advances to customers		**Placements with other banks**		**Debt securities**	
Concentration by sector:	**2019**	2018	**2019**	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Carrying amount	**5.979.148**	6.283.438	**395.258**	307.888	**4.299.932**	4.526.428
Businesses	**3.148.181**	3.313.503	**-**	-	**-**	-
Individuals	**4.096.009**	4.322.023	**-**	-	**-**	-
Governments	**-**	-	**-**	-	3.037.427	4.149.311
Banks	**-**	-	**395.470**	308.531	984.156	131.442
Other sectors	**-**	-	**-**	-	279.040	246.204
	7.244.190	7.635.526	**395.470**	308.531	**4.300.623**	4.526.957
Accumulated impairment losses	**(1.265.042)**	(1.352.088)	**(212)**	(643)	**(691)**	(529)
	5.979.148	6.283.438	**395.258**	307.888	**4.299.932**	4.526.428

Businesses in the above table include trade, construction and real estate, manufacturing, tourism and other companies as disclosed in Note 19.

	Loans and advances to customers		**Placements with other banks**		**Debt securities**	
Concentration by geographical location:	**2019**	2018	**2019**	2018	**2019**	2018
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Carrying amount	**5.979.148**	6.283.438	**395.258**	307.888	**4.299.932**	4.526.428
Eurozone	**7.090.457**	7.501.089	**93.536**	76.433	**3.627.002**	4.353.764
Other European countries	**125.800**	114.060	**189.573**	143.704	**210.444**	32.206
America	**15.068**	7.166	**108.960**	84.777	**217.676**	101.788
Oceania	**66**	79	**-**	190	**178.358**	-
Asia	**464**	535	**2.109**	2.737	**67.143**	39.199
Middle East	**4.390**	4.453	**844**	627	**-**	-
Africa	**7.945**	8.144	**448**	63	**-**	-
	7.244.190	7.635.526	**395.470**	308.531	**4.300.623**	4.526.957
Accumulated expected credit losses	**(1.265.042)**	(1.352.088)	**(212)**	(643)	**(691)**	(529)
	5.979.148	6.283.438	**395.258**	307.888	**4.299.932**	4.526.428

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

At 31 December 2019, 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:

	2019	2018
	€'000	€'000
Aaa	**496.615**	377.585
Aa1	**-**	12.994
Aa2	**28.660**	-
Aa3	**517.540**	-
A1	**133.215**	-
A2	**25.405**	-
A3	**21.505**	-
Baa1 to B3	**3.037.047**	4.135.849
Unrated	**39.945**	-
	4.299.932	4.526.428

49.3.1.2 Group's exposure in countries with high credit risk

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

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

For the classification of a country as "High Risk" country, the Non-Investment Grade status of countries which as per the CRR is the worst, out of the best two ratings from Moody's, Fitch and S&P as well as the Euromoney Score of countries or the rating of the dependent territory are primarily considered.

Some of the debt securities listed in the table below, based on the three-level hierarchy depending on the significance of the inflows used to determine fair value, are classified in Level 2 and 3.

Category "Other countries" includes less material exposures in a number of countries.

The analysis of concentration of credit risk in countries with high credit risk at the reporting date is shown below:

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

At 31 December 2019	Greece €'000	Lebanon €'000	Zimbabwe €'000	Serbia €'000	Egypt €'000	Iran €'000	Belarus €'000	South Africa €'000	Russia €'000	Ukraine €'000	Other countries €'000	**Total €'000**
Financial assets at fair value through profit or loss												
Government Bonds												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Bank Bonds												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Derivatives												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Collective Investment Units												
Carrying amount (fair value)	2	-	-	-	-	-	-	11	10	-	9	**32**
Financial assets at amortised cost												
Government bonds												
Carrying value (amortised cost)	49.954	-	-	-	-	-	-	-	-	-	-	**49.954**
Accumulated 12 months Expected Credit Losses	(51)	-	-	-	-	-	-	-	-	-	-	**(51)**
Fair value	49.954	-	-	-	-	-	-	-	-	-	-	**49.954**
Banks bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Other bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Placements with other Banks												
Carrying amount (amortised cost)	420	-	-	-	-	-	-	447	25.315	-	206	**26.388**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	(3)	-	-	**(3)**
Fair value	420	-	-	-	-	-	-	447	25.315	-	206	**26.388**
Loans and advances to customers												
Carrying amount (amortised cost)	134.365	465	188	319	5.705	652	2.098	1.228	11.254	9.458	476	**166.208**
Accumulated 12 months Expected Credit Losses	(896)	-	-	(529)	(1)	(1.460)	(1)	(769)	(9.087)	(1.887)	(317)	**(14.947)**
Fair value	135.531	448	189	307	5.684	674	2.015	1.192	10.519	9.255	460	**166.274**

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

At 31 December 2019	Greece €'000	Lebanon €'000	Zimbabwe €'000	Serbia €'000	Egypt €'000	Iran €'000	Belarus €'000	South Africa €'000	Russia €'000	Ukraine €'000	Other countries €'000	**Total €'000**
Financial assets at fair value through other comprehensive income (continued)												
Government bonds												
Nominal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount in fair value reserve	-	-	-	-	-	-	-	-	-	-	-	**-**
Banks bonds												
Nominal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount in fair value reserve	-	-	-	-	-	-	-	-	-	-	-	**-**
Other bonds												
Principal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount in fair value reserve	-	-	-	-	-	-	-	-	-	-	-	**-**
Total book value	**184.741**	**465**	**188**	**319**	**5.705**	**652**	**2.098**	**1.686**	**36.579**	**9.458**	**691**	**242.582**

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

At 31 December 2018	Greece €'000	Lebanon €'000	Jordan €'000	Serbia €'000	Egypt €'000	Philippines €'000	Belarus €'000	South Africa €'000	Russia €'000	Ukraine €'000	Other countries €'000	**Total €'000**
Financial assets at fair value through profit or loss												
Government Bonds												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Bank Bonds												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Derivatives												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Collective Investment Units												
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	4	**4**
Financial assets at amortised cost												
Government bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Bank bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Other bonds												
Carrying amount (amortised cost)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Fair value	-	-	-	-	-	-	-	-	-	-	-	**-**
Placements with other Banks												
Carrying amount (amortised cost)	281	-	46	-	-	-	-	63	27.376	-	48	**27.814**
Accumulated 12 months Expected Credit Losses	(1)	-	-	-	-	-	-	-	(6)	-	(98)	**(105)**
Fair value	281	-	46	-	-	-	-	63	27.376	-	48	**27.814**
Loan and advances to customers												
Carrying amount (amortised cost)	98.686	436	-	201	5.712	-	1.397	1.283	13.092	3.151	1.289	**125.247**
Accumulated 12 months Expected Credit Losses	(759)	(1)	-	(696)	(1)	-	(3)	(871)	(8.382)	(1.969)	(1.698)	**(14.380)**
Fair value	98.766	418	-	347	5.627	-	1.299	1.353	13.202	1.756	1.313	**124.081**

49. RISK MANAGEMENT (continued)

49.3 Credit risk (continued)

At 31 December 2018	Greece €'000	Lebanon €'000	Jordan €'000	Serbia €'000	Egypt €'000	Philippines €'000	Belarus €'000	South Africa €'000	Russia €'000	Ukraine €'000	Other countries €'000	**Total €'000**
Financial assets at fair value through other comprehensive income (continued)												
Government bonds												
Nominal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated amount of the fair value reserve	-	-	-	-	-	-	-	-	-	-	-	**-**
Bank Bonds												
Nominal amount	-	-	-	-	-	-	-	-	-	-	-	**-**
Carrying amount (fair value)	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Accumulated impairment losses	-	-	-	-	-	-	-	-	-	-	-	**-**
Other bonds												
Principal amount	-	-	-	-	-	39.301	-	-	-	-	-	**39.301**
Carrying amount (fair value)	-	-	-	-	-	39.194	-	-	-	-	-	**39.194**
Accumulated 12 months Expected Credit Losses	-	-	-	-	-	(5)	-	-	-	-	-	**(5)**
Accumulated amount in fair value reserve	-	-	-	-	-	(280)	-	-	-	-	-	**(280)**
Total book value	**98.967**	**436**	**46**	**201**	**5.712**	**39.194**	**1.397**	**1.346**	**40.468**	**3.151**	**1.341**	**192.259**

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks

Market and Liquidity Risk

The Assets and Liabilities Management Committee (ALCO) is responsible for implementing the policy of the Bank's Board of Directors regarding the risks and profitability arising from the Group's assets and liabilities. Market and Liquidity Risk Management is responsible for the identification, assessment, monitoring, control and management of the Group's market and liquidity risks within the framework of risk policies and within regulatory limits and the internal limits set by the Risk Appetite Statement (RAS) and 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 frameworks, policies and processes for managing the risks and for their daily assessment and monitoring. Frameworks and policies are reviewed at regular time intervals and are approved by ALCO, the Board Risk Management Committee and the Board of Directors itself.

49.4.1 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 markets.

The Group places emphasis on the maintenance of stable customer deposits, as they represent its main funding source. This is effectively 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).

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

The Group's LCR ratio was as follows:

	2019	2018
	%	%
At 31 December	**512,00**	565,00
Average for the year	**539,00**	355,00
Maximum percentage for the year	**582,00**	565,00
Minimum percentage for the year	**496,00**	282,00

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:

	2019	2018
	%	%
At 31 December	**199,00**	210,00
Average for the year	**200,00**	180,00
Maximum percentage for the year	**205,00**	210,00
Minimum percentage for the year	**198,00**	156,00

The High Quality Liquid Assets of the Group, calculated as per the provisions of the Commission Delegated Regulation (EU) 2015/61 (which supplements Regulation (EU) No 575/2013 (CRR) of the European Parliament and the Council with regard to the liquidity coverage requirement for Credit Institutions), as at 31 December, were as follows:

	2019	2018
	€'000	€'000
Cash and withdrawable Central Bank reserves	**4.850.804**	4.254.253
Other Level 1 assets	**3.428.184**	4.438.758
Total Level 2 assets	**126.841**	33.514
	8.405.829	8.726.525

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

Analysis of the liabilities of the Group based on their remaining contractual maturity as at 31 December 2019

	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
Total liabilities							
Deposits by banks	**173.990**	177.165	83.845	2.472	8.866	47.292	34.690
Customer deposits and other customer accounts	**14.601.654**	14.609.039	7.318.251	2.787.369	3.539.472	633.138	330.809
Derivatives	**15.697**						
- Cash inflows		(200.260)	(118.922)	(81.338)	-	-	-
- Cash outflows		202.500	120.000	82.500	-	-	-
Tax payable	**5.225**	5.225	5.225	-	-	-	-
Deferred tax liability	**31.292**	31.292	-	-	-	31.292	-
Lease liability	**13.976**	13.976	-	876	2.486	8.056	2.558
Financial guarantees and loan commitments issued	**24.425**	24.425	15.449	-	8.976	-	-
Other liabilities	**234.925**	234.925	150.515	7.595	65.863	10.952	-
Loan capital	**129.666**	129.666	-	-	-	-	129.666
	15.230.850	15.227.953	7.574.363	2.799.474	3.625.663	730.730	497.723

Analysis of the liabilities of the Group based on their remaining contractual maturity at 31 December 2018

	Carrying amount €'000	Gross nominal (inflows)/ outflows €'000	On demand €'000	Within three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000
Total liabilities							
Deposits by banks	**216.199**	218.792	106.925	2.859	11.616	57.476	39.916
Customer deposits and other customer accounts	**14.709.168**	14.761.647	6.047.640	3.154.041	4.798.522	471.294	290.150
Derivatives	**7.981**						
- Cash inflows		(196.566)	(143.331)	(53.235)	-	-	-
- Cash outflows		197.611	143.914	53.697	-	-	-
Tax payable	**5.322**	5.322	5.322	-	-	-	-
Deferred tax liability	**44.457**	44.457	-	-	-	44.457	-
Financial guarantees and loan commitments issued	**36.747**	36.747	34.062	-	2.685	-	-
Other liabilities	**152.098**	152.098	128.465	12.113	11.487	33	-
Loan capital	**129.667**	129.667	-	-	-	-	129.667
	15.301.639	15.349.775	6.322.997	3.169.475	4.824.310	573.260	459.733

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

The table below presents the encumbered and unencumbered assets:

31 December 2019	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*	116	-	5.357.113	-	116	-	5.335.597	-
Equity instruments**	-	-	42.378	-	-	-	14.136	-
Debt securities	-	-	4.299.932	3.640.519	-	-	4.299.445	3.640.519
Loans and advances other than loans on demand	132.850	-	5.846.298	-	132.850	-	5.846.298	-
Other assets	-	-	628.866	-	-	-	565.462	-
Total assets	**132.966**	**-**	**16.174.587**	**3.640.519**	**132.966**	**-**	**16.060.938**	**3.640.519**

31 December 2018	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*	526	-	4.698.806	-	526	-	4.685.200	-
Equity instruments**	-	-	34.638	-	-	-	11.497	-
Debt securities	38.271	38.271	4.488.157	4.140.439	38.271	38.271	4.487.358	4.140.439
Loans and advances other than loans on demand	118.814	-	6.164.624	-	118.814	-	6.164.624	-
Other assets	-	-	582.350	-	-	-	560.156	-
Total assets	**157.611**	**38.271**	**15.968.575**	**4.140.439**	**157.611**	**38.271**	**15.908.835**	**4.140.439**

*Loans on demand include Balances with Central Banks and Placements with other Banks receivable on demand.

**Equity instruments include equities and other securities and collective investment units (Group).

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

The recent coronavirus (COVID19) worldwide pandemic outbreak and the subsequent lockdown is expected to have an impact on the Bank's liquidity, mainly as a result of the loan repayments moratorium, increased drawdowns on committed facilities and increased deposit outflows. Nevertheless, even under an extreme stress scenario, the Bank is expected to remain comfortably above its regulatory and risk appetite limits for LCR and NSFR, as a result of its large liquidity buffer that allows it to withstand liquidity shocks and comfortably ensure its continuity through such a crisis.

49.4.2 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 four bank relationships for USD, including two which are full service relationships, three bank relationships for GBP, four bank relationships for RUB, and two bank relationships for CHF.

The table below presents the distribution of assets and liabilities that are subject to market risk between trading and non-trading portfolios:

	The Group			The Bank		
	Carrying amount	Trading portfolios	Non-trading portfolios	Carrying amount	Trading portfolios	Non-trading portfolios
31 December 2019	€'000	€'000	€'000	€'000	€'000	€'000
Assets						
Cash and balances with Central Banks	4.961.971	-	4.961.971	4.961.970	-	4.961.970
Derivatives	13	13	-	13	13	-
Placements with other banks	395.258	-	395.258	373.743	-	373.743
Loans and advances to customers	5.979.148	-	5.979.148	5.979.148	-	5.979.148
Debt, equity securities & Collective Investments Units	4.342.310	-	4.342.310	4.313.581	-	4.313.581
APS claims receivable	64.508	-	64.508	64.508	-	64.508
Indemnification assets	6.449	-	6.449	6.449	-	6.449
	15.749.657	**13**	**15.749.644**	**15.699.412**	**13**	**15.699.399**

49. RISK MANAGEMENT (continued)
49.4 Market and Liquidity Risks (continued)

	The Group			The Bank		
31 December 2019	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000
Liabilities						
Derivatives	15.697	15.697	-	15.697	15.697	-
Deposits	14.601.654	-	14.601.654	14.601.654	-	14.601.654
Financial guarantees and loan commitments issued	24.425	-	24.425	24.425	-	24.425
Subordinated loan capital	129.666	-	129.666	129.666	-	129.666
	14.771.442	**15.697**	**14.755.745**	**14.771.442**	**15.697**	**14.755.745**

	The Group			The Bank		
31 December 2018	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000
Assets						
Cash and balances with Central Banks	4.391.444	-	4.391.444	4.391.442	-	4.391.442
Derivatives	567	567	-	567	567	-
Placements with other banks	307.888	-	307.888	294.283	-	294.283
Loans and advances to customers	6.283.438	-	6.283.438	6.283.438	-	6.283.438
Debt ,equity securities & Collective Investments Units	4.561.066	-	4.561.066	4.537.126	-	4.537.126
Indemnification assets	71.003	-	71.003	71.003	-	71.003
	15.615.406	**567**	**15.614.839**	**15.577.859**	**567**	**15.577.292**

	The Group			The Bank		
31 December 2018	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000	Carrying amount €'000	Trading portfolios €'000	Non-trading portfolios €'000
Liabilities						
Derivatives	7.981	7.981	-	7.981	7.981	-
Deposits	14.709.168	-	14.709.168	14.709.324	-	14.709.324
Financial guarantees and loan commitments issued	36.747	-	36.747	36.747	-	36.747
Subordinated loan capital	129.667	-	129.667	129.667	-	129.667
	14.883.563	**7.981**	**14.875.582**	**14.883.719**	**7.981**	**14.875.738**

49.4.2.1 Foreign Exchange Risk

Foreign exchange risk arises from the undertaking of an open position in one or more foreign currencies. The Market and Liquidity Risk Unit monitors foreign currency positions on an ongoing basis within the risk management framework and the limits set by ALCO and the regulatory authorities. Within this framework, there are nominal limits (by currency, in total, during the day, end-of-day), gain/loss limits and Value-at-Risk (VaR) limits. The regulatory limits for open positions during working hours exceed the limits for open positions during non-working hours.

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

The VaR methodology is an important tool for the monitoring of foreign exchange risk. With this methodology, the Group calculates the maximum potential loss that may be incurred as a result of changes in market conditions, at a confidence level of 99% and over a one-day period (using the parametric method) based on the historical data of foreign exchange rate parities over a period of one year.

The table below presents VaR figures for the Group's foreign exchange risk:

	2019	2018
	€'000	€'000
At 31 December	**9**	7
Average for the year	**7**	8
Maximum amount for the year	**13**	13
Minimum amount for the year	**5**	5

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.

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group by currency as at 31 December 2019

	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	4.956.617	2.793	2.337	17	20	187	**4.961.971**
Placements with other banks	114.374	190.455	33.878	23.688	5.736	27.127	**395.258**
Loans and advances to customers	5.768.331	181.279	4.625	7	22.556	2.350	**5.979.148**
Debt securities	3.994.015	270.583	35.334	-	-	-	**4.299.932**
Equity and other securities and collective investment units	35.807	6.571	-	-	-	-	**42.378**
Investment in associate company	7.826	-	-	-	-	-	**7.826**
Property, plant and equipment	181.602	-	-	-	-	-	**181.602**
Intangible assets	49.086	-	-	-	-	-	**49.086**
Tax receivable	601	-	-	-	-	-	**601**
Deferred tax asset	15.937	-	-	-	-	-	**15.937**
Other assets	373.195	579	38	-	-	-	**373.812**
Total assets	15.497.391	652.260	76.212	23.712	28.312	29.664	**16.307.551**
Liabilities							
Deposits by banks	150.624	23.361	-	-	-	5	**173.990**
Customer deposits and other customer accounts	13.628.828	810.072	115.540	23.650	2.535	21.029	**14.601.654**
Tax payable	5.225	-	-	-	-	-	**5.225**
Deferred tax liability	31.292	-	-	-	-	-	**31.292**
Other liabilities	276.880	5.619	592	-	739	5.193	**289.023**
Loan capital	129.666	-	-	-	-	-	**129.666**
	14.222.515	839.052	116.132	23.650	3.274	26.227	**15.230.850**
Equity							
Share capital	206.403	-	-	-	-	-	**206.403**
Reserves	870.288	-	-	-	-	-	**870.288**
Equity attributable to shareholders of the parent company	1.076.691	-	-	-	-	-	**1.076.691**
Non-controlling interests	10	-	-	-	-	-	**10**
	1.076.701	-	-	-	-	-	**1.076.701**
Total liabilities and equity	15.299.216	839.052	116.132	23.650	3.274	26.227	**16.307.551**
Total position	198.175	(186.792)	(39.920)	62	25.038	3.437	
Effect of foreign currency derivatives on position	(198.288)	193.446	39.792	-	(31.594)	(3.356)	
Net currency position	(113)	6.654	(128)	62	(6.556)	81	

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group by currency at 31 December 2018

	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	4.385.318	3.366	2.455	13	26	266	**4.391.444**
Placements with other banks	75.742	156.920	24.733	2.311	27.493	20.689	**307.888**
Loans and advances to customers	6.093.418	142.990	4.810	38.205	5	4.010	**6.283.438**
Debt securities	4.135.850	357.019	33.559	-	-	-	**4.526.428**
Equity and other securities and collective investment units	30.111	4.527	-	-	-	-	**34.638**
Investment in associate company	8.997	-	-	-	-	-	**8.997**
Property, plant and equipment	101.489	-	-	-	-	-	**101.489**
Intangible assets	46.546	-	-	-	-	-	**46.546**
Tax receivable	494	-	-	-	-	-	**494**
Deferred tax asset	16.326	-	-	-	-	-	**16.326**
Other assets	388.770	8.614	9.872	-	-	1.242	**408.498**
Total assets	15.283.061	673.436	75.429	40.529	27.524	26.207	**16.126.186**
Liabilities							
Deposits by banks	164.692	40.672	10.246	314	275	-	**216.199**
Customer deposits and other customer accounts	13.706.127	833.846	119.374	2.779	27.687	19.355	**14.709.168**
Tax payable	5.322	-	-	-	-	-	**5.322**
Deferred tax liability	44.457	-	-	-	-	-	**44.457**
Other liabilities	174.653	10.950	9.346	547	-	1.330	**196.826**
Loan capital	129.667	-	-	-	-	-	**129.667**
	14.224.918	885.468	138.966	3.640	27.962	20.685	**15.301.639**
Equity							
Share capital	99.237	-	-	-	-	-	**99.237**
Reserves	721.109	-	-	-	-	-	**721.109**
Equity attributable to shareholders of the parent company	820.346	-	-	-	-	-	**820.346**
Non-controlling interests	4.201	-	-	-	-	-	**4.201**
	824.547	-	-	-	-	-	**824.547**
Total liabilities and equity	15.049.465	885.468	138.966	3.640	27.962	20.685	**16.126.186**
Total position	233.596	(212.032)	(63.537)	36.889	(438)	5.522	
Effect of foreign currency derivatives on position	(237.668)	215.774	64.005	(38.211)	523	(4.423)	
Net currency position	(4.072)	3.742	468	(1.322)	85	1.099	

49.4.2.2 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).

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group based on their contractual repricing or maturity dates at 31 December 2019

	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	146.531	4.815.440	-	-	-	-	**4.961.971**
Placements with other banks	44.006	348.500	-	2.752	-	-	**395.258**
Loans and advances to customers	-	546.592	3.940.137	331.296	796.271	364.852	**5.979.148**
Debt securities	-	118.748	248.301	930.093	2.645.447	357.343	**4.299.932**
Equity and other securities and collective investment units	14.136	10.595	784	-	8.955	7.908	**42.378**
Investment in associate company	7.826	-	-	-	-	-	**7.826**
Property, plant and equipment	181.602	-	-	-	-	-	**181.602**
Intangible assets	49.086	-	-	-	-	-	**49.086**
Tax receivable	601	-	-	-	-	-	**601**
Deferred tax asset	15.937	-	-	-	-	-	**15.937**
Other assets	373.812	-	-	-	-	-	**373.812**
Total assets	833.537	5.839.875	4.189.222	1.264.141	3.450.673	730.103	**16.307.551**
Liabilities							
Deposits by banks	-	83.635	2.263	8.579	45.867	33.646	**173.990**
Customer deposits and other customer accounts	-	5.712.138	1.529.300	4.074.374	1.178.702	2.107.140	**14.601.654**
Tax payable	5.225	-	-	-	-	-	**5.225**
Deferred tax liability	31.292	-	-	-	-	-	**31.292**
Other liabilities	289.023	-	-	-	-	-	**289.023**
Loan capital	129.666	-	-	-	-	-	**129.666**
Total liabilities	455.206	5.795.773	1.531.563	4.082.953	1.224.569	2.140.786	**15.230.850**
Total position	378.331	44.102	2.657.659	(2.818.812)	2.226.104	(1.410.683)	**1.076.701**
Nominal value of interest rate derivatives	-	1.190.000	-	-	(1.190.000)	-	**-**
Net position	378.331	1.234.102	2.657.659	(2.818.812)	1.036.104	(1.410.683)	**1.076.701**

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

Analysis of assets and liabilities of the Group based on their contractual repricing or maturity dates at 31 December 2018

	Non-interest bearing €'000	Within one month €'000	Between one and three months €'000	Between three months and one year €'000	Between one and five years €'000	Over five years €'000	**Total €'000**
Assets							
Cash and balances with Central Banks	151.692	4.239.752	-	-	-	-	**4.391.444**
Placements with other banks	22.539	282.203	706	2.440	-	-	**307.888**
Loans and advances to customers	-	944.273	4.884.538	374.790	54.520	25.317	**6.283.438**
Debt securities	-	43.406	131.339	1.275.586	2.530.939	545.158	**4.526.428**
Equity and other securities and collective investment units	11.497	-	782	4.625	13.552	4.182	**34.638**
Investment in associate company	8.997	-	-	-	-	-	**8.997**
Property, plant and equipment	101.489	-	-	-	-	-	**101.489**
Intangible assets	46.546	-	-	-	-	-	**46.546**
Tax receivable	494	-	-	-	-	-	**494**
Deferred tax asset	16.326	-	-	-	-	-	**16.326**
Other assets	408.498	-	-	-	-	-	**408.498**
Total assets	768.078	5.509.634	5.017.365	1.657.441	2.599.011	574.657	**16.126.186**
Liabilities							
Deposits by banks	-	108.200	5.949	102.050	-	-	**216.199**
Customer deposits and other customer accounts	-	6.509.136	1.517.736	4.851.998	1.505.702	324.596	**14.709.168**
Tax payable	5.322	-	-	-	-	-	**5.322**
Deferred tax liability	44.457	-	-	-	-	-	**44.457**
Other liabilities	196.826	-	-	-	-	-	**196.826**
Loan capital	129.667	-	-	-	-	-	**129.667**
Total liabilities	376.272	6.617.336	1.523.685	4.954.048	1.505.702	324.596	**15.301.639**
Total position	391.806	(1.107.702)	3.493.680	(3.296.607)	1.093.309	250.061	**824.547**
Nominal value of interest rate derivatives	-	1.190.000	-	-	(1.190.000)	-	**-**
Net position	391.806	82.298	3.493.680	(3.296.607)	(96.691)	250.061	**824.547**

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 (EVE) and Net Interest Income (NII), 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, the policies and the limits set by RAS and 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.

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

The tables below present the impact on the Group's Economic Value of Equity (EVE) from a set of 6 interest rate shock scenarios prescribed in the IRRBB EBA Guidelines of 2018[1], for the significant currencies, which are the EUR and the USD at year end:

EVE Sensitivity 2019
Interest rate scenarios

Change	Parallel Up €'000	Parallel Down €'000	Steepener €'000	Flattener €'000	Short rates down €'000	Short rates up €'000
Euro	118.983	14.056	62.568	(25.811)	(16.951)	12.230
US Dollar	12.294	(14.275)	3.488	(592)	(5.108)	4.693
Total	**131.277**	**(7.247)**	**66.056**	**(26.403)**	**(22.059)**	**16.923**

EVE Sensitivity 2018
Interest rate scenarios

Change	Parallel Up €'000	Parallel Down €'000	Steepener €'000	Flattener €'000	Short rates down €'000	Short rates up €'000
Euro	100.035	(44.450)	38.869	(11.092)	(16.163)	19.640
US Dollar	11.067	(12.910)	4.236	(1.574)	(3.610)	3.291
Total	**111.102**	**(57.360)**	**43.105**	**(12.666)**	**(19.773)**	**22.931**

Note 1: According to the IRRBB EBA Guidelines 2018, the shocks for EUR are 200 bps for parallel moves, 250 bps for short rate moves and 100 bps for long rate moves. The shocks for USD are 200 bps for parallel moves, 300 bps for short rate moves and 150 bps for long rate moves. The steepener and flattener rate shocks are a combination of the short rates and the long rate moves.

Based on the above results, the largest negative sensitivity of Economic Value of Equity at the end of 2019 was under the "Flattener" scenario and amounted to €26,4 million or 2,6% of the Bank's Tier1 Capital. The EVE sensitivity has decreased compared to the end of 2018, especially due to the change in the results of the "Parallel down" scenario. The reason for the significant reduction in the sensitivity under this scenario was the fact that the EUR yield curve has shifted down and widened (for the longer tenors) during 2019, thus reducing the gap from the floors imposed. The aggregation of the impact on EVE was performed based on the EBA guidelines according to which, when there is a need to add negative and positive changes occurring in each currency, positive changes are weighted by a factor of 50%.

In the calculation of EVE sensitivity, for the discounting needed to perform the calculations, the risk-free yield curve was used for each currency.

It is also noted that for the calculation of both EVE and NII sensitivity under scenarios with interest rate reductions, the IRRBB EBA Guidelines were followed for currencies with negative interest rates (a post shock floor of -1% was assumed) and, in addition, floors were inserted to specific products for which interest rates cannot be reduced lower than zero.

49. RISK MANAGEMENT (continued)

49.4 Market and Liquidity Risks (continued)

It is noted that the most significant assumption which affects the calculation results for both EVE and NII sensitivities concern the treatment of non-maturity deposits (NMDs). These deposits (current and savings accounts) do not have a contractual maturity and, to this effect, depositors may withdraw the available balance without prior notice. However, a significant share of these deposits is stable over time and is thus referred to as 'core deposits'. Core deposits are highly unlikely to reprice as a result of changes in interest rates. Therefore, core deposits are allocated in longer term time zones. The Bank has modelled NMDs through simulating deposit volumes for different categories to identify core deposits and their maturity. The average maturity of total NMDs is estimated at around 2,6 years and it is significantly lower than the maximum maturity of 5 years specified in the EBA Guidelines of 2018.

The tables below present the impact on Net Interest Income (over the next 12 months) as a result of a change of ±200 basis points in interest rates for the significant currencies, which are the EUR and USD at year end:

2019	**Euro**	**US Dollar**	**Total**
Change (€000)	**€'000**	**€'000**	**€'000**
+200 basis points	42.994	2.392	**45.386**
-200 basis points	(11.823)	(2.392)	**(14.215)**

2018	**Euro**	**US Dollar**	**Total**
Change (€000)	**€'000**	**€'000**	**€'000**
+200 basis points	43.773	1.804	**45.577**
-200 basis points	(13.789)	(1.804)	**(15.593)**

49.4.2.3 EU Benchmarks Regulation

The EU Benchmarks Regulation (Regulation (EU) 2016/1011 of the European Parliament and of the Council of the European Union) ('BMR') introduces a regime for benchmark administrators which seeks to ensure that benchmark rates e.g. EURIBOR are produced in a robust and reliable manner by promoting accuracy and integrity of benchmarks and protects consumers and investors through increased transparency. Furthermore, the European Money Markets Institute (EMMI), administrator of the EURIBOR benchmark, has announced the progressive implementation of the hybrid methodology for EURIBOR which is now fully compliant with BMR requirements.

The BMR requires supervised entities to reflect in their contractual relationship with clients, the actions to be taken in the event that the benchmark rates materially change or cease to be provided.

The Bank has identified the appropriate actions to be taken and has already started the implementation phase in order to ensure a smooth transition to alternative or reformed benchmark rates, ahead of the deadline of the end of 2021, specified in the revised BMR. Also, based on the current market information and the Bank's existing exposures to the benchmark rates, the expectation is that these changes will not materially affect the bank's financial position.

49.4.2.4 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.

49. RISK MANAGEMENT (continued)

49.4 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:

	2019		2018	
	Net profits	**Own Funds**	Net profits	Own Funds
	€'000	**€'000**	€'000	€'000
+15% change in index	**986**	**1.135**	679	1.045
-15% change in index	**(986)**	**(1.135)**	(679)	(1.045)

49.5 Operational risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. For the Bank, this definition includes legal, conduct and reputation risks, but excludes strategic risk.

The Bank has adopted the principles and provisions set out in the guidelines of the Directives of the Central Bank of Cyprus, the Single Supervisory Mechanism, Basel III framework as adopted by the EU and the Committee for European Banking Supervisors (CEBS).

The Bank classifies operational risk as one of the most significant risks it faces, as it is inherent in all activities, processes and systems and to its general behavior towards its customers. To this end, its actions focuses on cultivating an appropriate culture as well as defining / implementing appropriate procedures and systems to effectively identify, evaluate and manage / mitigate operational risk, always in line with its risk appetite.

To achieve the above, a single Operational Risk Management Framework (ORMF) has been adopted which is part of the Bank's Enterprise Risk Management Framework (ERMF). The ORMF sets out the principles, governance, structure and overall management architecture of the Bank's exposure to operational risk and it is developed based on the principles governed by the regulatory framework. The financial insurance coverage held by the Bank is considered as an effective tool of transferring operational risk and is part of this framework. The implementation of the ORMF is supported and overseen by the Operational & Emerging Risk Management Unit (O&ER).

The BoD supports the development of a robust operational risk management culture where the roles of business and control functions, under a three line of defence model, are well defined and respected. The Board encourages open discussion, challenge and thorough analysis of operational risks identified, so as to ensure that they are appropriately managed within the Bank’s risk appetite.

Over the course of 2019, the effective management of operational risk and hence, the implementation of a strong and effective control environment constituted one of the Bank's main priorities, mainly due to the acquisition of certain assets and liabilities of CCB, in September 2018.

Integration Risk represented the most important risk area within the Bank that affected almost all Operational Risk sub-categories.

The concurrent integration of people, clients and information has been a major challenge for the Bank and has absorbed a significant number of human and other resources.

49. RISK MANAGEMENT (continued)

49.5 Operational risk (continued)

The strong project management governance as well as the clear communication channels that have been set within the Bank for the identification, prioritization and resolution of issues arising, resulted in the successful integration of systems in September of 2019.

Within this environment, O&ER devoted significant resources under the various integration workstreams to become aware, provided support and ensured measures were taken to minimize relevant operational risks both during and after the project's completion.

49.6 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 CRR permits a transitional period for certain of the enhanced capital requirements and certain other measures, such as the leverage ratio, which are largely fully effective from 1 January 2018, and some other transitional provisions with phase in until 2024 (the latest).

Regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017, was issued amending Regulation (EU) No 575/2013, regarding transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the large exposures treatment of certain public-sector exposures denominated in the domestic currency of any Member State. According to the Regulation, institutions are allowed to exclude from their CET 1 capital and leverage ratios a portion of the increased expected credit loss provisions from the introduction of IFRS 9 for a transitional period. The transitional period has a maximum duration of five years and started in 2018. The portion of expected credit loss provisions that can be excluded from CET 1 capital should decrease over time down to zero to ensure the full implementation of IFRS 9 on the day immediately after the end of the transitional period.

49. RISK MANAGEMENT (continued)

49.6 Capital management (continued)

49.6.1 Regulatory developments

49.6.1.1 Capital Requirements Regulation amendments

On 7 June 2019, the EU banking reform package has been published in the Official Journal of the European Union. The package includes the European Parliament's and Council's Directive (EU) 2019/878 (CRD V) and the Regulation (EU) No 2019/876 (CRR II) of 20 May 2019, which were entered into force on 27 June 2019.

The Regulation (EU) No 2019/876 (CRR II) amends the CRR regarding the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements.

The Directive (EU) 2019/878 (CRD V) amends the CRD IV as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

The Directive has to be implemented into national law by 28 December 2020.

49.6.1.2 Basel III framework

In December 2017, the Basel Committee published the revisions to the Basel III framework. Basel III reforms are almost final.

The Basel III reforms include changes to the risk weights under the standardised approach for credit risk and market risk, replacement of the operational risk approach with a single standardised approach, amended set of rules for the calculation of credit valuation adjustment (CVA), revised definition of the exposure measure for the leverage ratio, introduction of leverage ratio buffer for global systemically important banks (G SIBs) and aggregate output floor to ensure that banks' total RWAs are no lower than 72,5% of the total risk-weighted assets calculated using the standardised approaches. In January 2019, the Basel Committee published the final changes to the market risk framework and conducted a "Fundamental Review of the Trading Book" (FRTB). The revised framework includes changes to the boundary of the banking book and the trading book, changes to the internal model approach to address the impact of non-modellable risk factors and changes to the standardised approach to align the treatment of foreign currency positions, options and index instruments with the associated risks. The credit valuation adjustment (CVA) risk framework is still outstanding and, the Basel Committee published consultation document in November 2019.

The Basel III reforms were planned to 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%.

However, following the spread of Covid-19, the implementation of revised Basel III reforms are deferred by one year to January 2023. Also, on 20 March 2020, the Basel Committee announced the suspension of consultation on all policy initiatives and postponement of all outstanding jurisdictional assessments planned in 2020.

The Bank is the process of examining the revised framework in order to be prepared for the effects of these amendments.

49. RISK MANAGEMENT (continued)
49.6 Capital management (continued)

The wide-ranging nature of these revisions were applied in the EU through substantial revisions to the CRR (CRR II) and through a new round of EBA technical standards and guidance. They have to be transposed into local law before coming into effect.

Basel III framework comprises of three Pillars:
- Pillar I – Enhanced minimum capital and liquidity requirements
- Pillar II – Enhanced supervisory review process for firm-wide risk management and capital planning
- Pillar III – Enhanced risk disclosure and market discipline

49.6.2 Pillar I – Enhanced minimum capital and liquidity requirements

49.6.2.1 Capital Requirements

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

Credit Risk

The Group has adopted the Standardised Approach for the calculation of the minimum capital requirements against credit risk. Under this approach, exposures are classified in specified classes and are weighed using specific weights, depending on the class the exposures belong to, their credit rating and/or the characteristics of the exposure. Also, the Basel framework suggests two alternative methods for the recognition of collateral, the Simple Approach and the Comprehensive Approach. The Group has applied the Comprehensive Approach, as it allows for a fairer recognition and better measurement of the Group's collaterals.

Market Risk

Regarding market risk, the Group has adopted the Standardised Approach, according to which the minimum capital requirement is estimated by adding together the capital requirements of positions on interest rates, equity and debt securities, foreign exchange and derivatives derived from the trading portfolio using predefined models, by risk category.

Operational Risk

The Group uses the Basic Indicator Approach for the calculation of the capital requirements for operational risk. Under the Basic Indicator Approach (BIA), the own funds requirement for operational risk is equal to 15% of the average of three years of the relevant indicator as set out in Article 316 of the CRR. The relevant indicator is based on the sum of the Group’s net interest income and its net non-interest income after certain qualification adjustments. Following the Acquisition, and after obtaining the approval of ECB, the Bank amended the calculation of the relevant indicator under the BIA approach to take into account the acquisition of the perimeter, pursuant to Article 315(3) of Regulation (EU) No 575/2013, by using the three-year forward-looking business estimates for the acquired perimeter since it was considered as an institution in operation for less than three years and as such no historical data of the combined entity were available. The Bank is progressively replacing the forward-looking business estimates with the historical data available for the combined entity, in the calculation of the relevant indicator for the operational risk own fund requirements. From 2019 onwards actual results are used and the above approach is expected to cease by the end of 2021, whereby three full years of 2019, 2020 and 2021 results for the combined entity will be available.

49. RISK MANAGEMENT (continued)

49.6 Capital management (continued)

Regulatory Capital

The Group's regulatory capital is calculated in accordance with the provisions of the Regulation (EU) No 575/2013 and is analysed as follows:

Common Equity Tier 1 capital

Common Equity Tier 1 capital includes share capital, share premium, retained earnings including the profit/loss for the year, accumulated other comprehensive income (i.e. revaluation reserve of investments in debt securities, revaluation reserve of investments in equity and other securities and property revaluation reserve) and other reserves such as translation reserve and reduction of share capital reserve. The carrying amount of goodwill and other intangible assets and deferred tax assets that rely on future profitability and do not arise from temporary differences are deducted from CET 1 capital. As per regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017 issued amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS9, a portion of the impact of expected credit losses provisions is added back to CET 1 capital allowing for a transitional period of five years until full impact on 2023. For 2019 and 2018 the portion added back is set at 85% and 95% respectively and will gradually reduce to 25% in 2022. Pursuant to Article 34 of the CRR the prudent valuation requirements of Article 105 of the CRR are applied to all assets measured at fair value and deducted from CET 1 capital the amount of any additional value adjustments necessary.

Additionally, the Group's contribution to the Investors Compensation Fund, as per the requirements of Circular 162 issued on 10 October 2016 by the Cyprus Securities and Exchange Commission (CySEC) and value adjustments due to the requirements for prudent valuation as per Article 105 of Regulation (EU) No 575/2013 is deducted from CET 1 capital. The amount for 2019 is zero.

With regards to the Bank's significant investments in financial sector entities, including its investments in subsidiary companies which operate in the insurance sector and deferred tax assets that rely on future profitability and arise from temporary differences, the Bank applied the exemption from deduction from CET 1 capital in accordance with the provisions of Article 470 of the CRR and these items are risk weighted at 250%.

Additional Tier 1 capital

Additional Tier 1 capital includes hybrid instruments, composed by Convertible Capital Securities 1 (CCS1) and Convertible Capital Securities 2 (CCS2). The carrying amount of intangible assets is deducted from AT1 capital.

49. RISK MANAGEMENT (continued)

49.6 Capital management (continued)

The position of the Group's regulatory capital and risk weighted assets as at 31 December was as follows:

	2019[1]	2018[3]
	€'000	€'000
Own funds		
Common Equity Tier 1 (CET 1)	**1.006.836**	759.517
Additional Tier 1 (AT1)	**129.666**	129.667
Tier 1 (T1)	**1.136.502**	889.184
Total regulatory capital	**1.136.502**	889.184
Risk weighted assets		
Credit risk	**4.275.610**	4.009.947
Market risk	**912**	947
Operational risk	**759.484**	785.082
Total risk exposure amount for credit valuation adjustments (CVA)	**2.654**	3.624
Total risk weighted assets	**5.038.660**	4.799.600

The Capital Adequacy Ratios[1] of the Group under Pillar I, which are above the minimum regulatory requirements, were as follows:

Capital Adequacy Ratios	**Group (transitional basis IFRS 9)[2]**		**Group (fully loaded basis IFRS 9)[2]**		**Minimum regulatory capital requirements (Phase-in)**
	31 December 2019[1]	**31 December 2018[2]**	**31 December 2019[1]**	**31 December 2018**	**31 December 2019[3]**
Capital Adequacy Ratio (%)	22,56%	18,53%	22,06%	18,00%	14,075%
Tier 1 Ratio (%)	22,56%	18,53%	22,06%	18,00%	12,075%
Common Equity Tier 1 (CET 1) Ratio (%)	19,98%	15,82%	19,47%	15,26%	10,575%

Note 1: Including 2019 profits, prior to obtaining AGM approval of year end profits.
Note 2: As per regulation (EU) 2017/2395 of the European Parliament and Council of 12 December 2017 issued amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9, a portion of the impact of expected credit losses provisions is added back to CET 1 capital allowing for a transitional period of five years until full impact on 2023.
Note 3: Excluding Pillar II capital guidance and based on 2018 SREP with reference date 31 December 2017, effective from 1 June 2019.
Note 4: Based on the final decision received, on 4 December 2019, of ECB's intention to adopt a decision establishing prudential requirements pursuant to Article 16 of Council Regulation (EU) No 1024/2013.
Note 5: Excluding Pillar II capital guidance and based on 2019 SREP with reference date 31 December 2018, effective from 1 January 2020.
Note 6: As per revised CBC circular dated 25 October 2018, the fully loaded O-SII buffer increases from 1% to 1,5%.

The corresponding capital ratios[1] of the Bank for 31 December 2019 were as follows:

Capital Adequacy Ratio (%)	**Transitional basis[2]**	**Fully loaded basis IFRS 9[2]**
Capital Adequacy Ratio (%)	22,48%	21,99%
Tier 1 Ratio (%)	22,48%	21,99%
Common Equity Tier 1 (CET 1) Ratio (%)	19,91%	19,40%
Common Equity Tier 1 capital (€million)	1.004	971
Risk Weighted Assets (RWAs) (€million)	5.043	5.007

49. RISK MANAGEMENT (continued)

49.6 Capital management (continued)

The Group's minimum phase-in Capital Adequacy Ratio, effective from 1 June 2019, was set at 14,075%, which includes, minimum Pillar I own funds requirements of 8%, own funds Pillar II requirement of 3,2% and a phased-in combined buffer requirement which comprises the fully loaded capital conservation buffer (CCB) of 2,5% and the phased-in O-SII buffer of 0,375%[6]. This was based on Supervisory Review and Evaluation Process 2018 (SREP 2018) conducted pursuant to Article 4(1)(f) of Regulation (EU) No 1024/2013 with reference date 31 December 2017, and also having regard to other relevant information received thereafter.

Moreover, the Group's minimum Capital Adequacy Ratio, CET 1 and Tier 1 ratios, effective as from 1 June 2019, were set at 14,075%, 10,575% and 12,075%, respectively.

Based on the final 2018 SREP letter the Pillar II requirement which was applicable as from 1 June 2019 has remained the same as in 2018 at 3,2%. Furthermore, the Bank shall refrain from making distributions to its shareholders.

In addition to the above, the ECB has provided on a consolidated basis, a revised Pillar II capital guidance to be made up entirely of CET 1 capital, which has remained the same as in 2018.

The increase in CET 1 ratio (transitional basis) compared to 31 December 2018, was the result of the combination of the increase in CET 1 capital, primarily due to current year profits and the capital raise of €145 million net off expenses directly related to the share issue, and the increase in risk weighted assets as a result of the increase in net funded exposures due to new lending and the acquisitions of debt securities.

Supervisory Review and Evaluation Process 2019 (SREP 2019)

Following ECB's final decision[4], in establishing prudential requirements, the Bank is required to maintain for 2020, effective from 1 January 2020, on a consolidated basis, a phase-in Capital Adequacy Ratio of 14,45%, which includes:

- the minimum Pillar I own funds requirements of 8% in accordance with Article 92(1) of Regulation (EU) No 575/2013 (of which up to 1,5% can be met with Additional Tier 1 Capital and up to 2% with Tier 2 Capital),
- an own funds Pillar II requirement of 3,2% required to be held in excess of the minimum own funds requirement (to be made up entirely of CET 1 Capital) (SREP 2018: 3,2%), and
- a phased-in combined buffer requirement which for 2020 includes the fully loaded capital conservation buffer of 2,5% (2019: 2,5% fully loaded and 2018: 1,875% phased-in), which has to be made up with CET 1 capital and the O-SII buffer of 0,75% (2019: 0,375% and 2018: 0%)[6] , with application starting from 1 January 2019 which is phased-in over a period of four years.

Additionally, applicable for Hellenic Bank, the combined buffer requirement includes:

- a Counter-Cyclical Capital Buffer (CCyB) for which the CBC has set the level at 0% for exposures located in Cyprus for 2018, 2019 and for the first half of 2020 (the institution specific CCyB rate for 2018 and 2019 was 0%),
- Systemic Risk Buffer (as per CBC circular dated 24 June 2019, this measure has been terminated as of 30 May 2019).

Taking into account the above, the Group's minimum Capital Adequacy Ratio, CET 1 and Tier 1 ratios effective as from 1 January 2020 are set at 14,45%, 10,95% and 12,45%.

49. RISK MANAGEMENT (continued)

49.6 Capital management (continued)

The final[4] 2019 SREP decision is effective from 1 January 2020.

Based on the final SREP letter the Pillar II requirement which is applicable as from 1 January 2020 has remained the same as in 2019 at 3,2%. Furthermore, the Bank shall refrain from making distributions to its shareholders.

In addition to the above, the ECB has provided on a consolidated basis, a revised Pillar II capital guidance to be made up entirely of CET 1 capital, which has remained the same as in 2019.

The capital ratios of the Group, are above the minimum regulatory requirements based on the final SREP letter as shown below:

Capital Adequacy Ratio (%)	31 December 2019 (transitional basis IFRS 9)[1, 2]	31 December 2019 (fully loaded basis IFRS 9)[1, 2]	Minimum regulatory capital requirements (Phase-in) 2020[5]
Capital Adequacy Ratio (%)	22,56%	22,06%	14,45%
Tier 1 Ratio (%)	22,56%	22,06%	12,45%
Common Equity Tier 1 (CET 1) Ratio (%)	19,98%	19,47%	10,95%

49.6.2.2 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 512% as at 31 December 2019 compared to 565% as at 31 December 2018. The LCR regulatory limit stands at 100%.

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 192% as at 31 December 2019 compared to 210% as at 31 December 2018.

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 2019[1, 2] the Leverage Ratio for the Group was 6,87% (Bank: 6,85%) compared to 5,42% (Bank: 5,40%) as at 31 December 2018.The Leverage Ratio[1, 2] on a fully loaded basis for the Group was formed at 6,68% (Bank: 6,67%) compared to 5,20% (Bank: 5,19%) as at 31 December 2018.

49. RISK MANAGEMENT (continued)

49.6 Capital management (continued)

49.6.3 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 2019, 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.

49.6.4 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.

On 17 December 2019, EBA issued its final Guidelines on disclosure of non-performing and forborne exposures, as per Part 8 'Disclosures by Institutions' of Regulation (EU) No 575/2013, in accordance with Articles 6, 10 and 13 of the CRR. These guidelines include enhanced disclosure requirements on non-performing exposures, forborne exposures and foreclosed assets, which were applicable from 31 December 2019.

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 Bank, within the framework of compliance with the requirements of Part 8 "Disclosures by Institutions" of the Regulation (EU) No 575/2013 (CRR) will extend the publication date of the Disclosures to the end of May 2020. The Pillar III report for 2019 which will incorporate the enhanced information regarding non-performing and forborne exposures as required by EBA Guidelines (EBA/GL/2018/10) will be available on Hellenic Bank's website www.hellenicbank.com (Investor Relations).

50. EVENTS AFTER THE REPORTING PERIOD

Appointment of New Member of the Board of Directors

Further to the announcement of the Bank dated 28 August 2019, in relation to the decisions of the Annual General Meeting of the Shareholders of the Bank, the Bank announced on the 6 March 2020, that the European Central Bank approved the appointment of Mr Christos Themistocleous to the Board of Directors of the Bank and therefore, Mr Themistocleous has been appointed as Independent Non-Executive Member of the Board of Directors of the Bank with effect from 6 March 2020.

Contribution to the Deposit Guarantee and Resolution of Credit and Other Institutions Scheme (DGS)

In March 2020, the Bank was notified the risk based contribution to the DGS attributable for the first six month period of 2020 . The contribution was set at €2,4 million and in line with IFRSs , it will be charged in the first quarter of 2020. Details of the DGS and the contributions payable by Credit Institutions are described in Note 45.

Establishment of Transformation Committee of the Board of Directors of the Bank

The Bank announced on 30 April 2020 that the Board of Directors of the Bank decided the establishment, as from 4 May 2020, of a temporary / ad hoc Transformation Committee of the Board of Directors of the Bank. The Transformation Committee is established to oversee the implementation of the Bank's Transformation Strategy, with special emphasis on the monitoring of the implementation of the Digital Transformation Strategy which forms part of the Bank's overall Strategy. It is anticipated that the Transformation Committee will operate up-to 31 December 2022. This term may, depending on the progress of the implementation of the Transformation plan, be extended or dissolved earlier if the implementation of the Transformation Strategy is substantially completed earlier than 31 December 2022.

Republic of Cyprus 52 weeks T-Bills

Following the COVID-19 outbreak and the resulting economic developments, the revaluation reserve of investments in debt securities at fair value through other comprehensive income (FVOCI) as at 30 April 2020 has been decreased by circa €6 million compared to 31 December 2019. Furthermore, on 24 April 2020 the Republic of Cyprus has issued, through a Private Placement, a 52 weeks T-Bills for a nominal amount of €1,25 billion. The T-bills have a pre agreed annual yield of 0,50% and they were listed in the Cyprus Stock Exchange for trading.

The Bank participated in the above process and a nominal amount of €330 million were allocated by the Republic of Cyprus.

Coronavirus (COVID-19) Pandemic

A major challenge for the international and local community is the recent coronavirus outbreak (COVID-19). With the recent and rapid development of the coronavirus pandemic outbreak the world economy entered a period of unprecedented crisis that has already caused considerable global disruption in business activities and everyday life. Many countries have adopted extraordinary and economically costly containment measures. Certain countries have required companies to limit or even suspend normal business operations. Governments, including the Republic of Cyprus, have implemented restrictions on travelling as well as strict quarantine measures.

The event is considered as a non-adjusting event and is therefore not reflected in the recognition and measurement of the assets and liabilities in the financial statements as at 31 December 2019.

50. EVENTS AFTER THE REPORTING PERIOD (continued)

The Cyprus economy is expected to be negatively impacted by the Covid-19 pandemic. The output shock is projected to stem mainly from the external demand slowdown, as well as from domestically-driven uncertainty, affecting negatively private consumption and investment. On the other hand, the decline in Gross Domestic Product (GDP) will be moderated, as imports are also expected to decline, due to lower internal demand. The parallel sharp decline in oil prices, is expected to have a favourable impact on the Cyprus economy, as it will hold down headline inflation, thereby support consumers' purchasing power.

The negative effects of the outbreak on the economic activity depend heavily on the range of its total extension and the timing of its curbing. The total extent and duration of the coronavirus economic impact are highly uncertain, but it is expected to be temporary.

The base case scenario for 2020 is that the outbreak is expected to have a significant negative economic impact mainly on the first and, to a lesser extent on the second half of the year. The Cyprus economy is expected to start rebounding in the fourth quarter of 2020, as confidence returns. As the outbreak will eventually dissipate, the economic activity in Cyprus should accelerate and remain robust in line with the Bank's baseline projections.

The sectors of the Cyprus economy that are expected to be most affected are hospitality (hotels and food services activities), retail trade (excluding food trade) and transportation.

Recent facts and circumstances around COVID-19, during the first quarter of 2020, so far suggest that in 2020, the Cyprus economy is being negatively impacted by the pandemic outbreak and the resulting disruption of economic activity, which could primarily impact specific lending portfolios. This development may adversely affect the ability of certain borrowers to repay their obligations and, consequently, the amount of expected credit risk losses.

The economic implications depend to a large extent on how long this crisis will last and vary on a case-by-case basis as each sector of the economy is affected differently. In the context of efforts to relieve businesses and individuals affected by the coronavirus and its associated restrictive measures, the Government of the Republic of Cyprus has announced a package of fiscal and monetary measures. At the same time, the supervisory authorities of the systemic European banks are taking a number of supporting measures to enhance the liquidity of the financial institutions and also facilitate the gradual absorption of the effects on the capital adequacy ratios, as described in the next section.

The Bank is closely monitoring developments with regards to the effects of COVID-19 on both the internal and external environment. As a result of the current challenging economic conditions ensuing from the COVID-19 outbreak, the Bank will update its macroeconomic assumptions underlying the IFRS 9 calculation of loan credit losses for the first quarter of 2020 as per EBA guidelines and anticipates that this may result in increased organic provisions in the first quarter of 2020, mainly driven by increase in Probabilities of Defaults on the performing book as a result of the deterioration in the macroeconomic environment, IFRS 9 Stage deteriorations and losses on the existing non-performing loan portfolio resulting from the prolongation of resolutions. Despite the expected impact, it is noted that a sizable part of the portfolio was already assessed through lifetime provisioning, whereas about 30% is protected by the government Asset Protection Scheme, after the ex-CCB transaction. Therefore, the overall cost of risk in the short to medium-term is expected to remain within reasonable levels.

Pre-provision profit is expected to be affected in 2020 by revenue loss as loan production is impaired, but the effort is to protect this as much as possible through reallocating capital to alternative yielding assets within the Bank's risk appetite and also aiming for cost reduction.

50. EVENTS AFTER THE REPORTING PERIOD (continued)

The preliminary assessment of the Bank, taking into account its exposure to the highly affected sectors, the nature of the current crisis as described above, the measures undertaken by the Government and the European Union (EU) Regulators in view of the COVID-19 outbreak, along with its current high capital adequacy and strong liquidity position, is that the capital and liquidity position of the Bank are expected to remain strong and above regulatory minimums.

Key measures taken by the European Commission, the Government of the Republic of Cyprus and the European Regulatory Authorities

European Commission

On 23 March 2020, the EU finance ministers approved the Stability and Growth Pact's 'general escape clause', which pauses the structural adjustments that countries must implement to meet their fiscal targets. This will allow member states to pursue a fiscal policy that departs from the budgetary requirements that would normally apply under the European fiscal framework in order to deal adequately with the pandemic outbreak.

On 9 April 2020, the Eurogroup announced a €540 billion rescue package. This included the use of the European Stability Mechanism (ESM) for €240 billion, which is approximately 2% of Eurozone GDP. The only conditionality is that this is required to fund the direct and indirect health care, cure and prevention costs of the coronavirus crisis. In addition, the Eurogroup endorsed the European Commission's €100 billion SURE (temporary Support to mitigate Unemployment Risks in an Emergency) initiative to support national short-term work schemes. Support will also be provided through the European Investment Bank (EIB) for €200 billion of loan guarantees with a focus on small and medium-sized enterprises.

Government of the Republic of Cyprus

The Government of the Republic of Cyprus has announced several measures to address the economic impact of the coronavirus (COVID-19) and to support the economy and entrepreneurship with the aim of safeguarding employment. The legislative acts of 27 March 2020, along with the Government's revised plan on 13 April 2020, have set relief measures of €1,3 billion (5,4% of GDP).

The measures, amongst others, include the temporary suspension of two months of VAT tax payments, financial support for businesses for which exceptional measures of suspension or temporary prohibition of operations apply or have undergone a decrease of their sales greater than 25%, salary substitution for employees of companies that are suspended from their operations, special purpose compensation for the affected self-employed and single person enterprises, as well as salary substitution for employees in special leave for care of children.

In view of the Covid-19 pandemic outbreak, on 27 March 2020 the Parliament voted a law where the Council of Ministers is authorized to take decisions in relation to the taking of extraordinary measures in relation to Financial Institutions (FI) and regulatory authorities for the purpose of safeguarding the financial stability. On 30 March 2020 the Minister of Finance issued a ministerial order within the framework of the Law. The effect of the Law and the respective order is that the payment of instalments of credit facilities are suspended for a certain period of time in relation to a category of eligible borrowers. In particular the Law authorises the Council of Ministers, among others, to decide for the suspension of instalments in relation to credit facilities granted to specified categories of debtors. The Law also provides that the suspension shall commence on the date of submission of an application in writing addressed to the FI. The Law also authorises the Minister of Finance to issue orders for the application of the Law.

The Ministerial Order (the Order) that was published on 30 March 2020 provides the following:

1. The applicability of the measures are from the date of the Order (30 March 2020) up to the 31 December 2020;

50. EVENTS AFTER THE REPORTING PERIOD (continued)

2. Instalments (including interest) for borrowers who are individuals, businesses, self-employed persons, and public entities (the Eligible Borrowers) are suspended until 31 December 2020;
3. There is a criterion that the Eligible Borrowers (i) cannot have had arrears of instalments beyond 30 days on 29 February 2020 and (ii) that they face financial difficulties as a result of the Covid-19 pandemic;

With a new ministerial Order on 7 May 2020, which complements the original order it is provided that they become also beneficiaries for the suspension of payments of instalments those who had settled their instalments in such a way that there are no overdue instalments beyond 30 days on 30 March 2020, and given that these arrears do not exceed €100 for retail loans and €500 for business loans.

4. The Eligible Borrowers who do want their instalments suspended need to send the FI an application in the form attached as appendix to the Order. The FI cannot reject such application unless applicant do not meet the criteria;
5. The total of the instalments (principal and interest) which has been suspended shall be added to the outstanding amount of the loan and shall not be due and payable at the expiry of the suspension, unless agreed otherwise between the debtor and the FI;
6. All terms of the contract (except for the repayment schedule) and security documents shall remain valid.

European Regulatory Authorities

On 18 March 2020, the European Central Bank (ECB) has launched a €750 billion emergency private and public bond plan to counter the impact of the coronavirus in the European economy.

Following, in March 2020, the ECB announced actions to mitigate the impact of COVID-19 on the European Union (EU) banking sector allowing more flexibility in the implementation of the European Banking Authority (EBA) Guidelines on management of non-performing and forborne exposures.

Meanwhile, the ECB, on 12 March 2020 announced supervisory and operational relief measures for the coronavirus impact. Specifically, the ECB and the EBA announced the following relaxation measures for the minimum capital and liquidity requirements for Banks in the Eurozone:

- Banks are temporarily allowed to operate below the level of capital defined by the Pillar 2 Guidance, the Capital Conservation Buffer, the Countercyclical Buffer and the Liquidity Coverage Ratio (LCR);

- Furthermore, the upcoming change under CRD5 regarding the P2R buffer was brought forward allowing the Pillar 2 Requirement (P2R) to be covered by Additional Tier 1 (AT1) capital and Tier 2 (T2) capital and not only by CET 1.

On 20 March 2020 ECB has announced supervisory measures to provide further flexibility in the supervisory handling of government guaranteed loans. On 25 March 2020, the European Banking Authority (EBA) issued statements to explain a number of additional explanatory aspects on the functioning of the prudential framework in relation to the classification of loans in default, the identification of forborne exposures, and their accounting treatment. In particular, the EBA clarified that generalized payment delays due to legislative initiatives and addressed to all borrowers do not lead to any automatic classification in default, forborne or unlikeness to pay.

50. EVENTS AFTER THE REPORTING PERIOD (continued)

The European Securities and Markets Authority (ESMA) in cooperation with European Banking Authority (EBA) also issued statements on 25 March 2020. Both authorities consider that the implementation of public or private decisions aimed at addressing the adverse systemic effects of the COVID-19, should not be regarded as an automatic indication that a significant increase has occurred of credit risk. In assessing the significant increase in credit risk, credit institutions are expected to use a certain degree of judgement and distinguish between borrowers whose credit standing would not be significantly affected by the current situation in the long term, and those who would be unlikely to restore their creditworthiness. Finally, in the context of measures to provide guarantees for issuer exposures, ESMA points out that the existence of such credit enhancements may affect the precise calculation of expected credit losses, depending on whether they are considered part of the contractual terms or not and with whether they are recognized separately by the issuer.

On 27 March 2020 ECB updated its recommendation to banks on dividend distributions. According to the recommendation banks should not pay dividends for the financial years 2019 and 2020 until at least 1 October 2020. Banks should also refrain from share buy-backs aimed at remunerating shareholders.

On 1 April 2020 EBA called on regulators to request that companies adopt conservative remuneration polices and urged all European banks to temporarily suspend dividends distribution and share buybacks.

On 22 April 2020 ECB adopted temporary measures to mitigate the effect on collateral availability of possible rating downgrades resulting from the economic fallout from the coronavirus (COVID-19) pandemic.

The package of policy measures announced by the European Commission, the Government of the Republic of Cyprus and the European Regulatory Authorities should help reduce the negative impact of the coronavirus outbreak and support the recovery of the Cypriot economy.

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

In accordance with article 9(3)(c) and (7) of the 2007 Law (L190(i)/2007) on Transparency Requirements (Securities Listed for Trading on a Regulated Market), we the Members of the Board of Directors and the Bank officials responsible for the drafting of the Financial Statements of Hellenic Bank Public Company Ltd (the Bank) for the year ended 31 December 2019, confirm that to the best of our knowledge:

(a) the annual Financial Statements presented in pages 22 to 203

- (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
Andrew Charles Wynn	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
Christos Themistocleous	Non-Executive Member of the Board
Stephen John Albutt	Non-Executive Member of the Board
Demetrios Efstathiou	Non-Executive Member of the Board
Kristofer Richard Kraus	Non-Executive Member of the Board
Marios Maratheftis	Non-Executive Member of the Board
Marco Comastri	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, 18 May 2020

DEFINITIONS OF ALTERNATIVE PERFORMANCE INDICATORS

Net interest margin
Net interest income divided by the average interest-bearing assets (annualised). Interest bearing assets consist of Cash and balances with Central Banks, placements with other banks, loans and advances to customers, investments in debt securities, indemnification assets and any receivables related to the indemnification asset. For calculating the average of the interest-bearing assets, the Bank uses the arithmetic average of total interest-bearing assets at each reporting date from the beginning of the year.

Cost to Income ratio
Total expenses to total net income.

Cost of risk ratio
Impairment losses (excluding any modification gain/losses, any APS claims and reversals of fair value of purchased credit impaired facilities) on the value of loans and advances divided by gross loans at the end of the period (annualised).

Net loans to deposits ratio
Net loans and advances to customers divided by customer deposits and other customer accounts.

NPEs to gross loans ratio
Gross non-performing exposures (EBA definition) divided by gross loans.

NPE provision coverage ratio
Accumulated impairment losses divided by gross non-performing exposures.

Net NPEs collateral coverage ratio
NPEs collateral (taking into account tangible collateral, based on open market values, capped at client exposure) divided by NPEs net of accumulated impairment losses.

HELLENIC BANK PUBLIC COMPANY LIMITED

REPORT OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE FOR THE YEAR 2019

INTRODUCTION

The Board of Directors of Hellenic Bank Public Company Limited (the "Company" or the "Bank") fully adopted the Code of Corporate Governance, which was published by the Cyprus Stock Exchange (5th revised edition – January 2019), hereinafter referred to as the "Code". In compliance with the provisions included in the Code's introduction, the Board of Directors of the Company (the "Board" or "BOD") incorporates the present Report on Corporate Governance in the Company's 2019 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 2019, the Board was composed of eleven non-Executive Directors and two Executive Directors, being sufficiently diversified in terms of age, gender, educational and professional background in order to reflect a sufficiently wide range of experiences and facilitate the extraction of a variety of independent opinions and critical challenges. The Board’s composition as at 31st December 2019, 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 2019.

During 2019, the Board of Directors held twenty-eight meetings, twelve of which were special meetings. Four of the abovementioned Board meetings were held without the presence of the Executive Directors. In accordance with the provisions of the Directive to Credit Institutions on Governance and Management Arrangements in Credit Institutions of 2014 of the Central Bank of Cyprus (the “Governance Directive”), one of the abovementioned meetings was held without the presence of the former Chairman (Chairman of the Board until 28th August 2019) and without the presence of the Executive Directors, was chaired by the Senior Independent Director and its purpose was to assess the performance of the former Chairman of the Board of Directors. Another one of the abovementioned meetings was held without the presence of the present Chairman (who was fulfilling the duties of the Chairperson of the Board from 24th May 2017 to 11th July 2018) and without the presence of the Executive Directors, was chaired by the former Chairman and its purpose was to assess the performance of the present Chairman of the Board of Directors. The overall attendance record at the 2019 Board meetings, scheduled and special, was 94%.

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

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

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

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

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

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

(1) Independent Non-Executive Directors in 2019

Based on the provisions of the Code and for the purposes of this Report, the following are the Independent Non-Executive Directors in 2019:

- Dr. Evripides A. Polykarpou, Chairman (elected Chairman on 28th August 2019, Senior Independent Director until 28th August 2019)
- Youssef A. Nasr, Chairman (Member of the Board until 28th August 2019)[1]
- Andrew Charles Wynn, Vice-Chairman (elected Vice-Chairman on 28th August 2019)
- Irena A. Georgiadou
- Christodoulos A. Hadjistavris[1] (Member of the Board until 28th August 2019)
- Andreas Christofides[2] (Member of the Board until 6th March 2020)
- Stephen John Albutt, Senior Independent Director (appointed Senior Independent Director on 28th August 2019)
- Demetrios Efstathiou[3]
- Marco Comastri (elected Member of the Board on 28th August 2019)
- Christos Themistocleous (appointed Member of the Board on 6th March 2020)
- Marianna Pantelidou Neophytou[4]
- David Whalen Bonanno[4]
- Kristofer Richard Kraus[4] (appointed Member of the Board on 19th June 2019)
- Marios Maratheftis[4] (elected Member of the Board on 28th August 2019).

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 2019

- Marinos S. Yannopoulos, Vice Chairman (resigned on 30th May 2019).

(3) Executive Directors in 2019

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

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

(4) Chief Executive Officer

- Ioannis A. Matsis.

Notes:

1 Messrs Youssef A. Nasr and Christodoulos A. Hadjistavris did not submit their candidacy for re-election, as Members of the Board of Directors at the Annual General Meeting of the Shareholders held on 28th August 2019, for personal reasons.

2 Mr Andreas Christofides did not submit his candidacy for re-election, as Member of the Board of Directors, at the Annual General Meeting of the Shareholders held on 28th August 2019. On the same day, Mr A. Christofides was appointed as Interim Director by the Board of Directors of the Bank, in

accordance with Regulation 110 of the Bank's Articles of Association. On 6th March 2020 Mr A. Christofides automatically vacated the office of the Interim Director, upon the appointment of Mr Christos Themistocleous as Independent Non-Executive Director following the relevant consent of the European Central Bank / Central Bank of Cyprus (who had been elected at the Annual General Meeting of the Shareholders held on 28th August 2019).

[3] Mr Demetrios Efstathiou was not re-elected as Member of the Board of Directors at the Annual General Meeting of the Shareholders held on 28th August 2019. On the same day, Mr D. Efstathiou was appointed as Interim Director by the Board of Directors of the Bank, in accordance with Regulation 110 of the Bank's Articles of Association. Upon the appointment of Mr Zion Bahloul as Independent Non-Executive Director following the relevant consent of the European Central Bank / Central Bank of Cyprus (who was elected at the Annual General Meeting of the Shareholders held on 28th August 2019), Mr D. Efstathiou will automatically vacate the office of the Interim Director.

[4] 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 and Messrs David Whalen Bonanno, Kristofer Richard Kraus and Marios Maratheftis are not independent.

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

Directors' Induction and Ongoing Development

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

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

Evaluation of Performance of the Board of Directors

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

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

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

In the first quarter of 2020 the Board of Directors performed the annual evaluation of the Board and its Committees for 2019.

The first external evaluation by external advisors was conducted in June 2015. A second external evaluation followed 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 2019 and 2020 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
- Recruitment, Selection and Ongoing Assessment of Key Function Holders Policy
- Recruitment Policy
- Rotation Policy
- Organizational Structure Reassessment Policy
- Remuneration Policy
- Code of Business Conduct and Ethics Framework
- 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
- Disciplinary Code
- Data Protection Framework
- Data Protection Policy
- Derecognition of Modified Financial Assets Policy
- Provision of Non-Audit Services by the External Auditor
- Regulatory Compliance Risk Assessment Policy
- Risk Management Charter
- Risk Appetite Framework
- Risk Appetite Statement
- Liquidity and Funding Risk Management Framework
- Market Risk Management Framework
- Enterprise Risk Management Framework

- Credit Risk Management Framework
- Operational Risk Management Framework
- Operational Risk Management Policy
- Compliance Policy to the Pillar III Disclosure Requirements as per CRR / CRD IV
- Property Valuations Policy
- Tax Risk Policy
- Asset Repossession, Management & Sales Policy
- Credit Policy – various Chapters
- Information Security Charter
- Information Security Policy
- Capital & Leverage Policy
- Stress Testing Policy
- Funding Policy
- Ship Finance Policy
- Customer Acceptance Policy
- Investment Framework
- Products & Services Management Policy
- Complaints Handling Policy
- Debt Forgiveness & Write Down Policy

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

Percentages of Major Shareholders as at 13 May 2020

The percentage of the Shareholders holding more than five per cent of the Company's issued share capital as at 13 May 2020 were as follows:

DEMETRA HOLDINGS PLC	21,01%
WARGAMING GROUP LIMITED	20,61%
POPPY S.A.R.L.	17,30%
THIRD POINT HELLENIC RECOVERY FUND LP	12,59%
ΤΑΜΕΙΟ ΠΡΟΝΟΙΑΣ ΤΡΑΠΕΖΙΚΩΝ ΥΠΑΛΛΗΛΩΝ ΚΥΠΡΟΥ	6,26%
SENVEST GROUP	5,07%

(6) Remuneration Policy Report

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

Information on the remuneration / fees of the Members of the Board of Directors and the Executive Directors for the year 2019 is disclosed in the notes to the Accounts contained in this Annual Report (Note 39) 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 2019. The adequacy and effectiveness of the System of Internal Control is reviewed by the Board at least annually. The review covers all systems of internal control, including financial and operational systems, as well as compliance systems and systems for the management of risks that threaten the attainment of the Group's objectives.

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

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

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

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

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

The Internal Audit Unit reports directly to the Audit Committee and the Board of Directors itself. It consists of 50 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 2019 to external audit firms:
(a) Audit of the Insurance subsidiary companies of the Group (Pancyprian Insurance and Hellenic Life),
(b) Internal Audit Services in the areas of E-mail services and Active Directory.

(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 2019 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 39). It is confirmed that credit facilities to Company Directors (and related parties) or to its subsidiary or associated company Directors are granted in the normal course of the Company's business, under normal commercial and employment terms and with transparency. Furthermore, it is confirmed that all relevant cases of Bank facilities to Company Directors and its subsidiary company Directors are forwarded for approval to the Board, after the relevant proposal of the Board's Audit Committee. The interested Member of the Board is neither present nor participates in the procedure.

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

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

(13) Board Committees

The following Board Committees operate within the Company:

(a) Audit Committee

Chairperson: Stephen John Albutt (Chairman from 12th September 2019)
Dr. Evripides A. Polykarpou (until 12th September 2019)

Members: Irena A. Georgiadou
Marianna Pantelidou Neophytou
Andreas Christofides (from 12th September 2019 until 6th March 2020)
Christos Themistocleous (from 17th March 2020).

(b) Remuneration Committee

Chairperson: Dr. Evripides A. Polykarpou (from 12th September 2019)
Stephen John Albutt (Chairman until 12th September 2019)

Members: David Whalen Bonanno
Christodoulos A. Hadjistavris (until 28th August 2019)
Irena A. Georgiadou
Andrew Charles Wynn (until 12th September 2019)
Stephen John Albutt (Member from 12th September 2019)
Marios Maratheftis (from 12th September 2019).

(c) Nominations / Internal Governance Committee

Chairperson: Dr. Evripides A. Polykarpou (Chairman from 12th September 2019)
Youssef A. Nasr (until 28th August 2019)

Members: Marianna Pantelidou Neophytou
David Whalen Bonanno
Demetrios Efstathiou
Andrew Charles Wynn (from 12th September 2019)
Kristofer Richard Kraus (from 12th September 2019)
Marco Comastri (from 12th September 2019).

(d) Risk Management Committee

Chairperson: Andrew Charles Wynn

Members: Marinos S. Yannopoulos (until 30th May 2019)
Andreas Christofides (until 12th September 2019)
Demetrios Efstathiou
Christodoulos A. Hadjistavris (until 28th August 2019)
Kristofer Richard Kraus (from 12th September 2019)
Marios Maratheftis (from 12th September 2019)
Marco Comastri (from 12th September 2019).

(e) Integration Committee

Chairperson: Irena A. Georgiadou (until 16th December 2019)

Members: Marinos S. Yannopoulos (until 30th May 2019)
Andreas Christofides (until 16th December 2019)
Marco Comastri (from 12th September 2019 until 16th December 2019).

(f) Transformation Committee

Chairperson: Marco Comastri (from 4th May 2020)

Members: Irena A. Georgiadou (from 4th May 2020)
Marianna Pantelidou Neophytou (from 4th May 2020)
Christos Themistocleous (from 4th May 2020).

The terms of reference of the above Committees (except the temporary / ad hoc Integration and Transformation 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 submits proposals to the Board regarding the appointment, compensation, terms and scope of engagement and substitution or rotation of the approved Auditor and other external Auditors of the Group. The Committee monitors and ensures the independence and effectiveness of the Auditors and oversees the relationship between them and the Group.

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

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

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

During 2019, the Audit Committee held seventeen meetings, one of which was held jointly with the Audit Committee of Pancyprian Insurance Ltd and the Audit Committee of Hellenic Life Insurance Company Ltd.

The current Committee's Chairperson (from 12th September 2019) has a Bachelor of Commerce degree and he is a Chartered Accountant - Member of the Institute of Chartered Accountants in England and Wales. He has extensive investment banking experience in multinational companies in London and Hong Kong. The previous Committee's Chairperson (until 12th September 2019) has university degrees in Business Administration (B.Sc. in Business, M.B.A. in Financial Management) and also extensive senior executive and/or non-executive experience, amongst others, in development of systems and processes, budget development and control, purchasing and logistics, quality assurance, corporate governance and compliance, having served as a Compliance Officer. The rest of the Committee Members are also Chartered Accountants - Members of the Institute of Chartered Accountants in England and Wales.

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

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

The Risk Management Committee meets whenever necessary and at least every month. During 2019, the Committee held twenty-four meetings.

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 involved Executive Member(s) of the Board or other Officers involved. It is also engaged in reviewing and making proposals on the remuneration of the non-Executive Members of the Board of Directors of the subsidiaries or associated companies of the Group.

The Committee’s suggestions and the Group’s Remuneration Policy take into consideration the relevant responsibilities, workload, qualifications, know-how, academic background, experience, individual performance, remuneration of comparable positions in the market, especially in areas where the Group is active, remuneration at other levels in the Group as well as non-financial criteria e.g. compliance with applicable rules and procedures. The Committee's aim is to attract and retain good quality officers at Executive and General Management levels, in order to better serve the interests of the Group as well as those of its Shareholders and other stakeholders.

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

During 2019, the Remuneration Committee held one meeting.

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 is also engaged in identifying, evaluating and recommending for approval by the Board of Directors candidates for the position of the CEO of the Company or any other company in which the Bank has the right to appoint and/or recommend the CEO, as well as in evaluating and recommending for approval by the Board of Directors the appointment of direct Reports to the CEO, following a relevant recommendation by the CEO.

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 2019, the Nominations / Internal Governance Committee held eight meetings.

Following the acquisition of certain assets and liabilities from the ex-Cyprus Cooperative Bank Limited, the Board of Directors decided to establish a temporary / ad hoc Integration Committee of the Board as from 1st August 2018. The **Integration Committee** was established to ensure the effective oversight and input of the Board of Directors in smoothly implementing the integration plan of the acquired business into that of the Bank. The operation of the Integration Committee was terminated on 16th December 2019.

During 2019, the Integration Committee held eleven meetings.

The Board of Directors decided to establish a temporary / ad hoc **Transformation Committee** of the Board as from 4th May 2020. The primary role of this Committee is to oversee the implementation of the Bank’s Transformation Strategy, with special emphasis on the monitoring of the implementation of the Digital Transformation Strategy which forms part of the Bank’s overall Transformation Strategy and to keep the Board of Directors informed of the progress, risks and mitigating plans of such implementation.

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

Terms of Reference of the Audit Committee

1. Establishment / Mission

The Audit Committee was established to fulfil the following mission in relation to Hellenic Bank Public Company Limited ('the Company' or 'the Bank' or 'the Group'):

The primary mission of the Committee is to ensure compliance with all required laws and regulations including but not limited to the requirements of the Business of Credit Institutions Laws, the relevant Central Bank of Cyprus' and European Central Bank's Directives and requirements and the Cyprus Stock Exchange's Code of Corporate Governance, in relation to Internal Audit and Compliance.

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

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

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

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

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

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

The Audit Committee as a whole should have:

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

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

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

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

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

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

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

3. Meetings of the Committee

The Committee holds meetings, at least quarterly, which, where appropriate, must coincide with important financial reporting dates. When participating in scheduled meetings of the Audit Committee, at least half, plus one (1) member, rounded down, shall be physically present. For unforeseen issues the Committee may convene via teleconferencing / videoconferencing for decision-taking. A Committee resolution in writing signed or approved by email or any other means of transmission (e.g. 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 next integral number of one half of the Members comprises a quorum.

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

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

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

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

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

4. Decision-making Process

4.1 The Committee is authorized by the Board to:

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

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

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

5. Duties and Responsibilities

The duties and responsibilities of the Committee are the following:

5.1 Financial Statements

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

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

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

(a) Changes to critical accounting policies and practices,
(b) Decisions requiring a significant element of judgement,
(c) Unusual transactions and how these are disclosed.

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

5.2 External Audit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.3 Internal Audit

5.3.1 It approves and evaluates the Internal Audit Charter.

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

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

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

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

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

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

5.3.8 It submits to the Board reports regarding the following:

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

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

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

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

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

5.4 Compliance

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

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

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

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

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

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

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

5.4.8 It ensures that the Compliance Unit has adequate resources.

5.5 Miscellaneous Issues

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

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

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

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

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

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

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

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

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

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

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

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

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

6. <u>Validity and Amendments of the Terms of Reference</u>

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. <u>Code of Corporate Governance</u>

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. <u>Establishment / Mission</u>

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

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

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

1.3 Promote risk-informed decision making across the Group;

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

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

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

2. Composition of the Risk Management Committee

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

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

The Chairperson of the Committee is appointed by the Board.

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

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

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

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

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

The Committee shall meet whenever necessary and at least twice every quarter. When participating in scheduled meetings of the BRMC, at least half, plus one (1) Member, rounded down, shall be physically present. For unforeseen issues, the Committee may convene via teleconferencing for decision-taking. A Committee resolution in writing signed or approved by email, text message, fax or any other means of transmission (i.e. Diligent) by ALL Committee Members shall be valid and effectual as if it had been passed at a meeting of the Committee duly convened and held.

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

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

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

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

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

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

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

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

Risk Appetite / Risk Strategy

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

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

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

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

Capital Management

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

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

Liquidity Management

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

Risk Data Aggregation and Reporting

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

Pillar 3 Disclosures

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

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

Remuneration

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

Control Functions

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

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

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

(i) the adequacy and effectiveness of the risk management and information security frameworks and propose improvements where necessary;
(ii) the adequacy and robustness of information and communication systems to enable identification, measurement, assessment and reporting of risk in a timely and accurate manner and ensure the adequate protection of the Company's confidential and proprietary information;
(iii) the adequacy of provisions and effectiveness of strategies and policies with respect to maintaining, on an ongoing basis, amounts, types and distribution of both internal capital and own funds, adequate to cover the risks of the Company.

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

Risk Management and Information Security Information

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

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

4.18 Review and make recommendations and requests considering the Group's risk profile in relation to its strategy and risk appetite and monitor material risks, key risk trends, concentrations and exposures by evaluating all appropriate information and reports including but not limited to the following:

(i) the quarterly reports submitted by the Chief Risk Officer within two months from the end of each quarter and inform the Board accordingly;
(ii) the monthly Risk Management Information Report (Risk MIR) by 22nd of the month following each calendar month end;
(iii) the quarterly reports submitted by the Head of the Information Security within two months from the end of each quarter and inform the Board accordingly;
(iv) the monthly Information Security Management Information Report (IS MIR) by 22nd of the month following each calendar month end;
(v) the annual reports submitted by the Heads of the Risk Management and Information Security Functions within two months from the end of each year and submit these to the Board, accompanied by the Committee's assessment of the reports;
(vi) 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.

4.19 Promote the development of relevant Early Warning Indicators and other loan portfolio management tools, analytics and strategies.

Evaluation of Risks

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

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

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

Committee Governance

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

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

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

Terms of Reference of the Nominations / Internal Governance Committee

1. Role of the Nominations / Internal Governance Committee

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

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

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

2. Composition of the Nominations / Internal Governance Committee

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

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

The Chairperson of the Committee is appointed by the Board.

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

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

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

The Committee shall meet whenever necessary and at least on a quarterly basis. The Committee may convene via teleconferencing for decision-taking. A Committee resolution in writing signed or approved by email, text message, fax or any other means of transmission (i.e. Diligent) by ALL Committee Members shall be valid and effectual as if it had been passed at a meeting of the Committee duly convened and held. When participating in scheduled meetings of the Nominations / Internal Governance Committee, at least half, plus one (1) Member, rounded down, shall be physically present.

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 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 any other company in which the Bank has the right to appoint and/or recommend the CEO.

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

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

4.12 The Committee is responsible for:

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

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

Appointment of the Direct Reports to the CEO

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

Fitness and Probity

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

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

Control Functions

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

4.17 Evaluate the relevant recommendation by the Audit Committee or Risk Management Committee accordingly for the appointment of the Heads of Internal Control Functions, reporting back to the respective Committee.

Internal Governance Arrangements

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

Corporate Social Responsibility

4.19 The Committee has the overall responsibility for the development and implementation of the Bank's Corporate Social Responsibility strategy and supports the Board in overseeing and challenging actions related to it.

4.20 The Committee reviews and recommends for approval by the Board the Annual Corporate Social Responsibility Report.

Committee Governance

4.21 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.

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

Annual General Meeting

4.23 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

4.24 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

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

5. Code of Corporate Governance

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

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

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

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

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

(16) Rotating Directors eligible for Re-Election

At the Extraordinary General Meeting of the Shareholders of the Bank, which was held on 26th June 2019, the amendments to the relevant Regulations of the Bank's Articles of Association were unanimously approved so that, at each Annual General Meeting of the Company, all the Directors (irrespective of when such person was appointed or elected or re-elected as a Director of the Company) shall retire from office and shall, if willing to act, be eligible for re-election. Hence, the retiring Directors, who are eligible and will offer themselves for re-election at the Annual General Meeting of the Shareholders on 16th June 2020, are the following:

(a) Dr. Evripides A. Polykarpou
(b) Andrew Charles Wynn
(c) Irena A. Georgiadou

(d) Marianna Pantelidou Neophytou
(e) Ioannis A. Matsis
(f) David Whalen Bonanno
(g) Stephen John Albutt
(h) Lars Kramer
(i) Kristofer Richard Kraus
(j) Marios Maratheftis
(k) Marco Comastri
(l) Christos Themistocleous

Their curriculum vitaes are uploaded on the Bank's website www.hellenicbank.com (Investor Relations / Corporate Governance [Board of Directors]).

Nicosia, 18 May 2020

HELLENIC BANK PUBLIC COMPANY LIMITED

REMUNERATION POLICY REPORT FOR THE YEAR 2019

INTRODUCTION

The Board of Directors (the “Board”) of Hellenic Bank Public Company Limited (the “Company” or the “Bank”), in compliance with the provisions of the Code of Corporate Governance, published by the Cyprus Stock Exchange (5th revised edition - January 2019) and particularly Appendix 1 of the Code, incorporates the present Remuneration Policy Report in the Company’s 2019 Annual Report. The Company’s 2019 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, 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 involved Executive Member(s) of the Board or other Officers involved. It is also engaged in reviewing and making proposals on the remuneration of the non-Executive Members of the Board of Directors of the subsidiaries or associated companies of the Group. The Committee’s suggestions and the Group’s Remuneration Policy take into consideration the relevant responsibilities, workload, qualifications, know-how, academic background, experience, individual performance, remuneration of comparable positions in the market, especially in areas where the Group is active, remuneration at other levels in the Group as well as, non-financial criteria e.g. compliance with applicable rules and procedures. The Committee's aim is to attract and retain good quality officers at Executive and General Management levels in order to better serve the interests of the Group as well as those of its Shareholders and other stakeholders.

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

The composition of the Remuneration Committee during 2019 and until the date of this Report is as follows:

Chairperson:	Dr. Evripides A. Polykarpou (from 12th September 2019) Stephen John Albutt (Chairman until 12th September 2019)
Members:	David Whalen Bonanno Christodoulos A. Hadjistavris (until 28th August 2019) Irena A. Georgiadou Andrew Charles Wynn (until 12th September 2019) Stephen John Albutt Marios Maratheftis (from 12th September 2019).

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, the Company Secretary, as well as of the Chief Executive Officer, his/her direct reports and the Heads of the Control Functions (Key Function Holders). Furthermore, the Committee is engaged in reviewing and making proposals on the remuneration (Directors' Fees) of the Members of the Board of Directors of any company in which the Bank has the right to appoint and/or recommend Members of the Board.

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 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. When participating in scheduled meetings of the Remuneration Committee, at least half, plus one (1) Member, rounded down, shall be physically present.

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, the Company Secretary, the Chief Executive Officer ("CEO") of the Company, his/her direct reports, the CEO of any company in which the Bank has the right to appoint and/or recommend the CEO and the Heads of the Control Functions (Key Function Holders). The Committee shall also submit to the Board proposals on the remuneration (Directors' Fees) of the Members of the Board of Directors of any company in which the Bank has the right to appoint and/or recommend Members of the Board.

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.

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

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

Remuneration of Non-Executive Members of the Board

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

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

b. The responsibilities assumed by each Member,

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

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

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

Readjustment of Benefits

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

External Advice

4.13 The Committee shall review the appointment of external remuneration consultants that the Board or the Remuneration Committee may decide to engage for advice or support.

4.14 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

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

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

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

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

Key Function Holders

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

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

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

Remuneration Reports / Statements

4.17 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.

4.18 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.

4.19 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

4.20 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.

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

Annual General Meeting

4.22 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. <u>Code of Corporate Governance</u>

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 28th August 2019, 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 2019 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 2019 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) Chairperson of the Integration Committee: €45.000
(vi) Chairperson of the Transformation Committee: €45.000
(vii) Member of the Audit Committee: €20.000
(viii) Member of the Risk Management Committee: €20.000
(ix) Member of the Remuneration Committee: €10.000
(x) Member of the Nominations / Internal Governance Committee: €10.000
(xi) Member of the Integration Committee: €20.000
(xii) Member of the Transformation Committee: €20.000.

The operation of the Integration Committee of the Board of Directors, which has been formed to ensure the effective oversight and input of the Board in smoothly implementing the integration plan relating to the acquisition of certain assets and liabilities from the ex-Cyprus Cooperative Bank Limited, was terminated on 16th December 2019.

The temporary / ad hoc Transformation Committee of the Board of Directors has been established on 4th May 2020 to oversee the implementation of the Bank's Transformation Strategy, with special emphasis on the monitoring of the implementation of the Digital Transformation Strategy which forms part of the Bank's overall Transformation Strategy and тo keep the Board of Directors informed of the progress, risks and mitigating plans of such implementation.

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

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

REMUNERATION POLICY FOR THE EXECUTIVE DIRECTOR / CHIEF EXECUTIVE OFFICER

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REMUNERATION POLICY FOR THE EXECUTIVE 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.

The changes in the cumulative retirement benefits of the Executive Directors for the year are disclosed in Note 39 to the Accounts contained in this Annual Report.

REMUNERATION POLICY

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

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

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

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

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

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

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

Related to the Remuneration Policy for the Executive and Non-Executive Members of the Board and Senior Managers for 2019 is the disclosure of information in the notes to the Accounts included in this Annual Report (Note 39) as well as the analytical Disclosure of Information Regarding the Remuneration of the Directors for the year 2019 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, 18 May 2020

DISCLOSURE OF INFORMATION REGARDING THE REMUNERATION OF DIRECTORS FOR THE YEAR 2019

	Remuneration for services	Remuneration for participation in the Board of Directors and its Committees	**Total remuneration for services**	Remuneration and benefits from companies of the same Group of companies	Remuneration in the form of profit and/or bonus distribution	Assessment of the value of the benefits that are considered to form remuneration	**Total remuneration and benefits**	Annual increase in the total retirement benefits	Consideration for terminating the contract of employment
	€	€	€	€	€	€	€	€	€
Executive Directors									
Ioannis A. Matsis	485.000	45.000	**530.000**	-	-	27.890	**557.890**	-	-
Lars Kramer	430.000	45.000	**475.000**	-	-	-	**475.000**	-	-
	915.000	90.000	**1.005.000**	-	-	27.890	**1.032.890**	-	-
Non-Executive Directors									
Dr. Evripides A. Polykarpou	-	132.685	**132.685**	-	-	-	**132.685**	-	-
Youssef A. Nasr	-	101.918	**101.918**	-	-	-	**101.918**	-	-
Andrew Charles Wynn	-	101.726	**101.726**	-	-	-	**101.726**	-	-
Marinos S. Yannopoulos	-	37.500	**37.500**	-	-	-	**37.500**	-	-
Stephen John Albutt	-	87.808	**87.808**	-	-	-	**87.808**	-	-
Irena A. Georgiadou	-	118.151	**118.151**	-	-	-	**118.151**	-	-
Marianna Pantelidou Neophytou	-	75.000	**75.000**	-	-	-	**75.000**	-	-
David Whalen Bonanno	-	65.000	**65.000**	-	-	-	**65.000**	-	-
Christodoulos A. Hadjistavris	-	49.315	**49.315**	18.964	-	-	**68.279**	-	-
Andreas Christofides	-	84.178	**84.178**	-	-	-	**84.178**	-	-
Demetrios Efstathiou	-	75.000	**75.000**	18.000	-	-	**93.000**	-	-
Kristofer Richard Kraus	-	-	**-**	-	-	-	**-**	-	-
Marios Maratheftis	-	24.658	**24.658**	-	-	-	**24.658**	-	-
Marco Comastri	-	29.918	**29.918**	-	-	-	**29.918**	-	-
	-	982.857	**982.857**	36.964	-	-	**1.019.821**	-	-
Total	**915.000**	**1.072.857**	**1.987.857**	**36.964**	**-**	**27.890**	**2.052.711**	**-**	**-**

Notes:

1. The Remuneration for participation in the Board of Directors and its Committees of the Non-Executive Directors relate to the period for which they were Members of the Board of Directors.
2. Mr Kristofer Richard Kraus has waived his right to receive remuneration due to his company policy.