ERB Hellas Funding Limited

Annual Report

For the year ended 31 December 2018

Company's registration number: 89637

Index to the Annual report

Declaration of the Directors responsible for financial reporting

Pursuant to Article 3 of Luxembourg's Transparency Law, the undersigned Stephen Langan, director of ERB Hellas Funding Limited ("the Company" or "the Issuer"), to the best of his knowledge, hereby declares that the annual financial statements prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and that the Directors' Report includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that the Company is exposed to.

Stephen Langan

Director

21 June 2019

Directors' Report

The directors submit their report and the audited financial statements of ERB Hellas Funding Limited ("the Company") for the year ended 31 December 2018.

a. Business review and principal activities

The Company was incorporated on 4 March 2005. It is a registered public company limited by shares, incorporated and domiciled in Jersey, Channel Islands. The registered number of the Company is 89637 and the registered address is 44 Esplanade, St. Helier, Jersey, JE4 9WG, Channel Islands.

The principal activity of the Company is to provide funding to its immediate Parent Company, Eurobank Ergasias S.A. ("the Parent Company", "the Bank" or "the Group"), a bank incorporated in Greece, by the issue of non-cumulative guaranteed, non-voting preferred securities. The preferred securities issued by the Company have been guaranteed on a subordinated basis by the Parent Company.

The profit for the year ended 31 December 2018 amounted to € 741 thousand (ths), attributable to the reversal of IFRS 9 expected credit losses (ECL) (note 11) (2017: loss € 47 ths). In December 2018, the Company proceeded with a share capital increase of € 800 ths, fully covered by its Parent Company (note 13).

b. Business environment, strategy and future outlook

The Company's business strategy and activities are linked to those of its Parent Company. In 2018, the Parent Company's Group has operated in an environment of positive growth rates both in Greece and the other countries, in which it has a substantial presence. Specifically, the gradual improvement of the macroeconomic environment in Greece supported by the successful conclusion of the third economic adjustment program (TEAP) in August, along with the positive outcome of the European Banking Authority (EBA) Stress Test for the domestic banks, affected positively the Greek banking sector. In this context, the Parent Company's Group enhanced its organic profitability, improved further its liquidity position by a robust deposit increase and reduced substantially the Non Performing Exposures (NPEs) stock in line with the annual target.

Following the completion of the full redemption of the preference shares issued by the Parent Company on 17 January 2018 and in accordance with the terms of the preferred securities issued, the Company declared payment of dividend on the series A, B, C and D preferred securities on the next (one or four as appropriate according to each series terms) dividend payment dates. Subsequently, the Company received the coupons of the linked investment securities held and paid the dividends to the preferred securities holders (notes 11 and 12).

The Company has decided to proceed with the redemption of all four series of the preferred securities issued. A regulatory announcement of its intention was released on 23 April 2019. Pursuant to the terms of each issue the next available call dates for redeeming are:

(i) 18 March 2020 for Series A preferred securities,
(ii) 2 August 2019 for Series B preferred securities,
(iii) 9 July 2019 for Series C preferred securities and
(iv) 29 October 2019 for Series D preferred securities.

The Company will deliver a notice to the holders not less than 30 nor more than 60 days prior to each series redemption. Accordingly, on 29 May 2019 the Company gave notice to the holders that on 9 July 2019 the Company will redeem the Series C preferred securities. The redemption will be according to the relevant provisions of each series and will be effected via the repurchase, under the same terms, of the linked investment securities held by the Company and issued by the Parent Company.

Directors' Report (continued)

These financial statements have been prepared on a basis other than going concern, considering: a) the Company's decision to proceed with the redemption of all four series of the preferred securities issued and b) that there are no plans for new issues in the foreseeable future (note 2.1).

On the basis of the analysis of the Parent Company's capital solvency and liquidity position, the directors have been satisfied that the Parent Company will have the ability to proceed with the buy-back of the investment securities issued and held by the Company and consequently, the Company will be in a position to proceed with the redemption of its preferred securities.

c. Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. All of the key business risks affecting the Company, including credit risk, are managed in coordination with the Parent Company, and are set out in Note 2 and Note 3.

The Company is a finance vehicle whose principal purpose is to raise debt to be deposited with the Parent Company and its financial position is influenced by the Parent Company's financial condition.

The principal risks and uncertainties of the Parent Company for 2018, which include those of the Company, are discussed in the Report of Directors and the notes to the consolidated financial statements included in the 2018 Annual Financial Report of Eurobank Ergasias S.A., which was signed on 29 March 2019 (available at website: www.eurobank.gr).

d. Creditor payment policy

The Company's policy concerning the payment of its creditors and service providers is to pay in accordance with its contractual and other legal obligations.

e. Directors

The directors of the Company who were in office during the year and up to the date of signing the Financial Statements were as follows:

Stephen Langan

Cheryl Anne Heslop

None of the directors has or had any notifiable interest in the shares of the Company or the Group.

f. Parent Company

The Parent Company is Eurobank Ergasias S.A., incorporated in Greece. The Parent Company's ownership is analysed further in Note 14.

g. Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they are required to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these financial statements, the directors are required to:

Directors' Report (continued)

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Jersey) Law, 1991. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Parent Company's website. Legislation in the Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

h. Statement of disclosure of information to auditors

Each director in office at the date of the directors' report confirms that:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

i. Independent Auditors

Following the 24 February 2017 decision of the Board of Directors (BoD) of Eurobank Ergasias SA, to appoint KPMG Certified Auditors A.E. (KPMG) as the audit firm to conduct the statutory audit of the financial statements of the Parent Company for the period 2018-2022, ERB Hellas Funding also appointed KPMG Channel Islands Limited as statutory auditor for 2018.

j. Secretary

The secretary of the Company who held office for the year ended 31 December 2018 and up to the date of signature of the report and financial statements was Intertrust SPV Services Limited.

The Directors' Report was approved by the Board of Directors on 21 June 2019 and was signed on its behalf by:

Company Secretary – Intertrust SPV Services Limited

21 June 2019

Independent Auditor's Report to the Members of ERB Hellas Funding Limited

Our opinion is unmodified

We have audited the financial statements of ERB Hellas Funding Limited (the "Company"), which comprise the balance sheet as at 31 December 2018, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements:

— give a true and fair view of the financial position of the Company as at 31 December 2018, and of the Company's financial performance and cash flows for the year then ended;

— are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union; and

— have been properly prepared in accordance with the requirements of the Companies (Jersey) Law, 1991.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards as applied to listed entities. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Emphasis of matter – preparation on a basis other than going concern

We draw attention to the disclosures made in note 2.1 to the financial statements which explains that the financial statements have not been prepared on the going concern basis for the reasons set out in that note. Our opinion is not modified in respect of this matter.

Key Audit Matters: our assessment of the risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We summarise below the key audit matters, which is in addition to the preparation on a basis other than going concern in the emphasis of matter section of this report, in arriving at our opinion above.

	The risk	Our response
Valuation of investment securities and preferred securities at fair value through profit or loss *Investment securities at fair value through profit or loss €12,578,000 (2017: €9,226,000)* *Preferred securities at fair value through profit or loss €12,578,000 (2017: €9,226,000)* *Refer to accounting policies in note 2, 3, 4, 11 and 12.*	*Basis:* The use of investment securities and preferred securities is central to the Company's principal activity. The investment securities and preferred securities comprise the largest balances reported in the Company's balance sheet. Following the adoption of IFRS 9, the Company continues to measure its Series D preferred securities and related investment securities at fair value through profit or loss. For determining the fair value of the preferred securities, which are not quoted in an active market, the Company used quotes for identical financial instruments provided by a third party pricing source. The investment securities are valued based on the price of the preferred securities issued by the Company on the basis that the two instruments have back-to-back terms and the preferred securities are limited recourse. **Risk:** The judgments applied and assumptions made by the Directors in estimating the fair value of the investment securities and preferred securities may not be appropriate. The amounts recorded in the balance sheet may therefore not represent fair values at the reporting date.	*Our audit procedures included:* *Internal Controls:* We assessed the design and implementation of the control in place over the valuation of the investment securities and preferred securities at fair value through profit and loss. *Challenging managements' assumptions and inputs:* • We obtained an understanding of the valuation methodology adopted, the key assumptions made and inputs used by the Directors to estimate fair value. We challenged the methodology, assumptions and inputs based on the nature of the preferred securities and our assessment of available market data. • We compared the fair value of the preferred securities at fair value through profit or loss for consistency with the fair value of the related investment securities at fair value through profit or loss. *Assessing observable inputs:* • We assessed the valuation of the preferred securities by comparing it to available third pricing sources considering the reliability of such prices and the availability of third party pricing sources at year end. *Assessing disclosures:* We assessed the financial instruments and fair value disclosures in the financial statements for compliance with IFRS as adopted by the European Union requirements.

	The risk	Our response
Valuation of investment securities and preferred securities at amortised cost *Investment securities at amortised cost €23,929,000 (2017: €24,036,000)* *Preferred securities at amortised cost €23,928,000 (2017: €24,035,000)* *Refer to accounting policies in note 2, 3, 4, 11 and 12.*	**Basis:** The use of investment securities and preferred securities is central to the Company's principal activity. The investment securities and preferred securities comprise the largest balances reported in the Company's balance sheet. Following the adoption of IFRS 9, the Company reclassified its Series A, B and C investment securities from held to maturity to financial instruments at amortised cost. The preferred securities continue to be measured at amortised cost under IFRS 9. The Company measures its Series A, B and C preferred securities at amortised cost using the effective interest rate method and assesses all financial assets for impairment using a forward-looking expected credit loss ("ECL") approach which requires the use of complex models and significant judgment about future economic conditions and credit behaviour. Subsequent to the year-end, the Company announced its intention to redeem Series A, B and C. Management has therefore considered the redemption prices as the key input into the amortised cost calculation as at 31 December 2018. The investment securities are carried based on the amortised cost value of the preferred securities issued by the Company on the basis that the two instruments have back-to-back terms and the preferred securities are limited recourse. **Risk:** The judgments applied and assumptions made by the Directors in the impairment assessment, and the inputs used in the amortised cost calculation using effective interest rate method may not be appropriate. Therefore the amounts recorded in the balance sheet may not represent the appropriate amortised cost as at reporting date.	*Our audit procedures included:* ***Internal Controls:*** We assessed the design and implementation of the control in place over the amortised cost calculation of the investment securities and preferred securities at amortised cost. ***Challenging managements' assumptions and inputs:*** • We obtained an understanding of the valuation methodology adopted, the key assumptions made, and inputs used by the Directors to determine the amortised cost as at reporting date. • We assessed the adequacy and reasonableness of the inputs used by management to the ECL calculation. • We compared the amortised cost of the preferred securities for consistency with the amortised cost of the related investment securities. ***Assessing management's evaluation of carrying amount:*** We considered the credit risk of the Counterparty to the investment securities, Eurobank Ergasias S.A. (the "Parent'), and whether this has impacted the impairment assessment of the investment securities. We also assessed the Parent's ability to meet its obligation in respect of the investment securities by discussing with the Parent's auditor to identify whether there were any findings noted from their audit of the Parent's financial statements as at 31 December 2018 which may impact the Parent's ability to repay both the investment securities interest and principal amounts. ***Assessing disclosures:*** We assessed the financial instruments and carrying amount disclosures in the financial statements for compliance with IFRS as adopted by the European Union requirements.

Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at €373,440, determined with reference to a benchmark of Total Assets of €37,344,000 of which it represents 1%.

We reported to the Board of Directors any corrected or uncorrected identified misstatements exceeding €18,670, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above, which has informed our identification of significant risks of material misstatement and the associated audit procedures performed in those areas as detailed above.

We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

We have nothing to report on other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies (Jersey) Law 1991 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on pages 5 and 6, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company'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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Lesley Averell
For and on behalf of KPMG Channel Islands Limited
Chartered Accountants and Recognized Auditors

37 Esplanade
St Helier
Jersey

24 June 2019

Statement of Comprehensive Income

		Year ended 31 December	
	Note	**2018** €'000	2017 €'000
Interest and similar income	5	**3,035**	1,482
Interest expense and similar charges	6	**(3,033)**	(1,480)
Net interest income		**2**	2
Net gains/(losses) from financial instruments designated at fair value	7	**0**	0
Impairment (losses)/reversal	11	**822**	-
Operating expenses	8	**(83)**	(49)
Profit/(loss) before income tax		**741**	(47)
Income tax expense	9	**-**	-
Net profit/(loss)		**741**	(47)
Other comprehensive income		**-**	-
Total comprehensive income/(loss)		**741**	(47)

The notes on pages 16 to 46 form an integral part of these financial statements.

Balance Sheet

	Note	31 December 2018 €'000	31 December 2017 €'000
Assets			
Deposits with banks	10	**837**	111
Investment securities at FVTPL	11	**12,578**	9,226
Investment securities at amortised cost	11	**23,929**	24,036
Total assets		**37,344**	33,373
Liabilites			
Preferred securities designated at fair value through profit or loss	12	**12,578**	9,226
Preferred securities at amortised cost	12	**23,928**	24,035
Other liabilities		**35**	26
Total liabilities		**36,541**	33,287
Equity			
Share capital	13	**510**	310
Share premium	13	**598**	-
Retained earnings		**(305)**	(224)
Total equity		**803**	86
Total equity and liabilities		**37,344**	33,373

The financial statements on pages 12 to 46 were approved and authorized for issue by the Board of Directors on 21 June 2019 and signed on their behalf by:

Stephen Langan

Director

The notes on pages 16 to 46 form an integral part of these financial statements.

Statement of Changes in Equity

	Share capital €'000	Share premium €'000	Retained earnings €'000	Total €'000
Balance at 1 January 2017	310	-	(177)	133
(Loss)	-	-	(47)	(47)
Total comprehensive loss for the year ended 31 December 2017	-	-	(47)	(47)
Balance at 31 December 2017	310	-	(224)	86
Balance at 1 January 2018	**310**	**-**	**(224)**	**86**
Impact of adopting IFRS 9 at 1 January 2018 (note 2.13.1)	-	-	(822)	(822)
Balance at 1 January 2018, as restated	**310**	**-**	**(1,046)**	**(736)**
Profit	-	-	741	741
Total comprehensive income for the year ended 31 December 2018	-	-	741	741
Share capital increase (note 13)	200	598	-	798
Balance at 31 December 2018	**510**	**598**	**(305)**	**803**

The notes on pages 16 to 46 form an integral part of these financial statements.

Cash Flow Statement

	Year ended 31 December	
	2018	2017
	€'000	€'000
Cash flows from operating activities		
Interest and similar income received	**2,540**	-
Interest and similar charges paid	**(2,538)**	-
Cash payments to suppliers	**(76)**	(56)
Net cash flows from/(used in) operating activities	**(74)**	(56)
Proceeds from share capital increase (net of expenses)	**800**	-
Net cash flows from/(used in) financing activities	**800**	-
Net increase/(decrease) in cash and cash equivalents	**726**	(56)
Cash and cash equivalents at beginning of period	**111**	167
Cash and cash equivalents at end of period	**837**	111

The notes on pages 16 to 46 form an integral part of these financial statements.

Notes to the Financial Statements

1. General information

ERB Hellas Funding Limited ("the Company") is a Jersey-based public company. The Company is a subsidiary of Eurobank Ergasias S.A. (the "Parent Company" or the "Bank") which operates mainly in Greece and Central and Southeastern Europe. The Company is a finance company, whose sole business is raising debt for the Parent Company via preferred securities listed on various European Stock Exchanges, London, Frankfurt, Luxembourg and Euronext Amsterdam, purchased by institutional and private investors. The listed preferred securities outstanding are guaranteed by the Parent Company. ERB Hellas Funding Limited has no employees or audit committee.

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), as adopted by the European Union ("EU") and in particular with those IFRS and IFRS Interpretation Committee's (IC) interpretations issued and effective as at the time of preparing these statements, and in accordance with the Companies (Jersey) Law 1991.

These financial statements have been prepared on the historical cost basis except for financial assets at fair value through profit or loss and financial liabilities at fair value through profit or loss which have been measured at fair value.

The accounting policies for the preparation of the financial statements have been consistently applied to the years 2018 and 2017, adjusted where necessary in 2018 after taking into account the amendments in IFRS described in sections 2.1.a & b "New and amended standards and interpretations". Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. For further details, see note 4.

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

<u>Going concern</u>

These financial statements have been prepared on a basis other than going concern, considering: a) the Company's decision to proceed with the redemption of all four series of the preferred securities issued and b) that there are no plans for new issues in the foreseeable future.

In making their assessment of the Company's ability to proceed with the aforementioned redemption, and considering that the redemption will be effected via the repurchase, under the same terms, of the linked investment securities held by the Company and issued by the Parent Company, the directors have taken into consideration the following factors directly related to the Parent Company's operations:

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern (continued)

In 2018, the Parent Company's Group has operated in an environment of positive growth rates both in Greece and the other countries, in which it has a substantial presence. Specifically, the gradual improvement of the macroeconomic environment in Greece supported by the successful conclusion of the third economic adjustment program (TEAP) in August, along with the positive outcome of the European Banking Authority (EBA) Stress Test for the domestic banks, affected positively the Greek banking sector. In this context, the Parent Company's Group enhanced its organic profitability, improved further its liquidity position by a robust deposit increase and reduced substantially the Non Performing Exposures (NPEs) stock in line with the annual target.

The Parent Company's Group Common Equity Tier 1 (CET1) ratio stood at 14.2% at 31 December 2018, and the net profit attributable to shareholders amounted to € 91 million (€ 200 million net profit from continuing operations before € 44 million restructuring costs, after tax) for the year ended 31 December 2018. As at 31 December 2018, the Bank has reduced the stock of NPEs by € 2.8 bn since 31 December 2017 to € 15.3 bn which is in line with the revised target submitted to SSM in September 2018.

On the basis of the analysis of the Parent Company's capital solvency, liquidity and outperformance of NPEs reduction targets, the directors have been satisfied that the Parent Company has the ability to proceed with the repurchase under the same terms of the linked investment securities issued, held by the Company and consequently, the Company will be in a position to proceed with the redemption of its preferred securities.

(a) New and amended standards adopted by the Company

The following new standards, amendments to standards and new interpretations as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), which are relevant to the Company, applicable from 1 January 2018:

IFRIC 22, Foreign Currency Transactions and Advance Consideration

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

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

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments

IFRS 15 establishes a single, comprehensive revenue recognition model to be applied consistently to all contracts with customers, determining when and how much revenue to recognise, but has no impact on income recognition related to financial instruments which is under the scope of IFRS 9 and IAS 39. In addition, IFRS 15 replaces the previous revenue recognition guidance, including IAS 18 "Revenue", IAS 11 "Construction contracts" and IFRIC 13 "Customer Loyalty Programs".

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

The adoption of the standard had no impact on the Company's financial statements as net interest income, which is the primary revenue stream of the Company, falls outside the scope of IFRS 15.

IFRS 9, Financial Instruments

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

Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in note 2.13.1. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

Changes in the classification and measurement

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

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

Reclassifications between categories are made only in rare circumstances.

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

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

- Financial assets measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets measured at FVTPL

The Company may at initial recognition, designate a financial asset at FVTPL in order to eliminate or significantly reduce an accounting mismatch.

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

Finally, under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

The Company's classification of its financial assets and liabilities is explained in Sections 2.4 and 2.7 of this note. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.13.1.

Changes to the impairment calculation

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

IFRS 9 requires the Company to record an allowance for credit loss for all financial assets not held at FVTPL. The allowance is based on the ECL calculation of the related probability of default of the debtor in the next twelve months unless there has been a significant increase in credit risk since origination of the exposure, when lifetime ECL is measured.

If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

Details of the Company's impairment policy are disclosed in Section 2.6 of this note. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.13.1.

Consequential changes in disclosures (IFRS 7 'Financial Instruments: Disclosures')

Effective from 1 January 2018, due to IFRS 9 transition, these financial statements include transition disclosures, which provide qualitative and quantitative information about the impact from the revised classification and measurement and ECL principles.

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

A number of new standards, amendments to existing standards and interpretations are effective after 2018, as they have not yet been endorsed by the European Union or have not been early applied by the Company.

The following amendments to existing standards listed below, that will be effective from 1 January 2019, are not expected to have a material impact to the Company:

- IFRS 9, Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020, not yet endorsed by EU) and;
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020, not yet endorsed by EU).

2.2 Interest income and expense

Policy applicable from 1 January 2018

Interest income and expense are recognized in the statement of comprehensive income for all interest bearing financial instruments on an accrual basis, using the effective interest rate (EIR) method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.2 Interest income and expense (continued)

instruments other than purchased or originated credit-impaired, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses.

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets it is adjusted for the expected credit loss allowance. The gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.

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

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

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

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

Following the Company's decision to redeem its preferred securities issued on the next available call dates and the subsequent decision of the Parent Company to buy back the debt securities issued, held by the Company, as at 31 December 2018, the unamortised discount of financial assets and liabilities has been recycled to interest income and expense, respectively (notes 11 and 12).

Policy applicable before 1 January 2018

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

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.3 Transactions in Foreign currency

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognised in the statement of comprehensive income. Exchange differences on financial assets and liabilities measured at fair value through profit or loss are reported as part of the fair value gain or loss.

2.4 Financial assets

Policy applicable from 1 January 2018

Financial assets - Classification and measurement

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

Purchases and sales of financial assets are recognized on trade date, which is the date the Company commits to purchase or sell the assets.

Financial Assets measured at Amortized Cost ('AC')

The Company classifies and measures a financial asset at AC only if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method.

Interest income, realized gains and losses on derecognition, and changes in expected credit losses from assets classified at AC, are included in the income statement.

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

The Company classifies and measures a financial asset at FVOCI only if both of the following conditions are met:

(a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model) and

(b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.4 Financial assets (continued)

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

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

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

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

Business model and contractual characteristics assessment

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

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

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

Types of business models

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

The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.4 Financial assets (continued)

Debt instruments classified within this business model may include bonds and deposits with banks which are measured at amortized cost, subject to meeting the SPPI assessment criteria.

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

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

The Company reassesses its business models at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Company's strategy and main activities.

Cash flow characteristics assessment

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

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

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

The Company performs the SPPI assessment for its portfolios on an individual basis.

Following the Company's business model and cash flow characteristics assessments, its financial assets fall into the categories of HTC, which are measured at amortized cost and FVTPL where it is considered that the financial asset has failed the SPPI test.

Derecognition of financial assets

The Company derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Company assumes an obligation to pay the received cash flows without a

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.4 Financial assets (continued)

material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Company has transferred control of the asset. Control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party. On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in OCI for financial assets at FVOCI, is recognized in income statement.

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

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

Policy applicable before 1 January 2018

The Company classifies its financial assets in the following IAS 39 categories: financial assets at fair value through profit or loss, loans and receivables and held to maturity investment securities.

Management determines the classification of its financial instruments at initial recognition.

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

This category includes financial assets designated at fair value through profit or loss upon initial recognition. The Company designates certain financial assets upon initial recognition as at fair value through profit or loss when any of the following apply:

a) it eliminates or significantly reduces measurement or recognition inconsistencies; or

b)financial assets share the same risks with financial liabilities and those risks are managed and evaluated on a fair value basis; or

c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.4 Financial assets (continued)

Accounting treatment and calculation

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

Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to–maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the statement of comprehensive income in the period in which they arise.

Derecognition of financial assets

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

The control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party.

In addition, derecognition of financial asset arises when its contractual cash flows are modified and the modification is considered substantial enough so that the original asset is derecognized and a new one is recognized.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received, including any new asset obtained less any new liability assumed is recognised in profit or loss.

2.5 Fair value measurement of financial instruments

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

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

If there is no quoted price in an active market, then the Company 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 factors that market participants would take into account in pricing a transaction.

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.5 Fair value measurement of financial instruments (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price i.e. the fair value of the consideration given or received unless the Company determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognised in the profit or loss. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss). Subsequently the deferred gain or loss is amortised on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 3).

For assets and liabilities that are measured at fair value on a recurring basis, the Company recognises transfers into and out of the fair value hierarchy levels at the beginning of the semester in which a financial instrument's transfer was effected.

2.6 Impairment of financial assets

Policy applicable from 1 January 2018

The Company recognizes allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI.

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

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.6 Impairment of financial assets (continued)

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

- Stage 1 – When there is no significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-months ECL is recorded. The 12 – month ECL represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognized following a substantial modification accounted for as a derecognition, are classified initially in Stage 1.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. Lifetime ECL represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.
- POCI - Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. They are not subject to stage allocation and are always measured on the basis of lifetime expected credit losses. Accordingly, ECL are only recognized to the extent that there is a subsequent change in the assets' lifetime expected credit losses. Any subsequent favorable change to their expected cash flows is recognized as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition.

Definition of default

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

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event.
- The Company, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Company would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.6 Impairment of financial assets (continued)

Significant increase in credit risk (SICR) and staging allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, since initial recognition.

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

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

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

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

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

Transfers from Stage 2 to Stage 1

A financial asset, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the Stage 2 Criteria.

Transfers from Stage 3 to Stage 2

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

Measurement of Expected Credit Losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Company in accordance with the contractual terms of the instrument and the cash flows that the Company expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered.

The Company estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.6 Impairment of financial assets (continued)

ECL are calculated over the maximum contractual period over which the Company is exposed to credit risk, which is determined based on the substantive terms of the instrument.

Specifically, for debt securities, the measurement of impairment losses is performed on an individual debt security basis.

Following the intention of the Company to redeem its preferred securities in issue on the next available coupon dates at their optional redemption price (i.e. their nominal amount plus accrued and unpaid preferred dividends until the date of redemption) and of the Parent company to buyback all investment securities held by the Company, as mentioned in Directors' Report, section b, all financial assets are classified as short term. No impairment loss has been recorded as at year-end.

Presentation of impairment allowance

For financial assets measured at amortized cost, impairment allowance is recognized as a loss allowance reducing the gross carrying amount of the financial assets in the balance sheet. For debt instruments measured at FVOCI, impairment allowance is recognized against other comprehensive income and does not reduce the carrying amount of the debt instruments in the balance sheet. The respective ECL/reversal for the above financial items is recognised within impairment losses/reversal.

Write-off of financial assets

Where the Company has no reasonable expectations of recovering a financial asset either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The amount written-off is considered as derecognized. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

Policy applicable before 1 January 2018

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets, not carried at fair value through profit or loss, is impaired. A financial asset or a group of financial assets is impaired and an impairment loss is incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired refers to observable data that comes to the attention of the Company about the following loss events:

(a) significant financial difficulty of the issuer or borrower;

(b) a default or breach of contract;

(c) significant changes in the financial performance of the borrower that affect the borrower's ability to meet its debt obligations, such as:

-operating losses;

-working capital deficiencies;

-the borrower having a negative equity;

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.6 Impairment of financial assets (continued)

(d) other facts indicating a deterioration of the financial performance of the borrower, such as a breach of terms, or a partial write-off of the borrower's obligations due to economic or legal reasons relating to his financial status;

(e) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

(f) it is becoming probable that the borrower will enter into bankruptcy or other financial reorganization;

(g) significant adverse changes in the borrower's industry or geographical area that could affect his ability to meet its debt obligations;

(h) market related information including the status of the borrower's other debt obligations; and

(i) a significant downgrade in the internal or external credit rating of the borrower's financial instruments when considered with other information;

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account for loans and receivables or directly for other financial assets and the amount of the loss is recognised in the statement of comprehensive income ("SOCI").

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account or the asset's carrying amount, as appropriate. The amount of the reversal is recognised in the SOCI.

A financial asset is written off when there is no realistic prospect of recovery. The Company considers all relevant information including the occurrence of a significant change in the issuer's/borrower's financial position to such extent that the borrower can no longer pay their obligation.

2.7 Financial liabilities

Financial liabilities - Classification and measurement

Policy applicable from 1 January 2018

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

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.7 Financial liabilities (continued)

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

The Company may, at initial recognition, irrevocably designate financial liabilities at fair-value-through-profit-or-loss when one of the following criteria is met:

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

Financial liabilities designated at FVTPL are initially recognized at fair value. Changes in fair value are recognized in the income statement, including the effects of changes in credit risk, in order to avoid an accounting mismatch.

Policy applicable before 1 January 2018

The Company classifies its financial liabilities in the following categories: financial liabilities measured at amortised cost and financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss are financial liabilities designated at fair value through profit or loss upon initial recognition.

The Company designates financial liabilities at fair value through profit or loss when any of the following apply:

(a) it eliminates or significantly reduces measurement or recognition inconsistencies; or

(b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or

(c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Company is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability, and any difference arising is recognised in the SOCI.

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

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.7 Financial liabilities (continued)

Similarly, when the Company repurchases any debt instruments issued by the Company, it accounts for such transactions as an extinguishment of debt.

In case that the Company revises its estimates of payments on its financial liabilities at amortised cost, it adjusts the carrying amount of the financial liability to reflect actual and revised estimated cash flows. Accordingly, the Company recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's effective interest rate and recognises the adjustment in SOCI.

2.8 Cash and cash equivalents

Cash and cash equivalents include sight accounts deposits (deposits that can be withdrawn immediately without any notice or penalty).

2.9 Offsetting financial instruments

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

2.10 Related party transactions

Related parties of the Company include:

(a) the Parent Company and entities controlled, jointly controlled or significantly influenced by the Parent Company;
(b) an entity that has control over the Parent Company and entities controlled, jointly controlled or significantly influenced by this entity;
(c) members of key management personnel of the Company or its parents, their close family members and entities controlled or jointly controlled by the above mentioned persons.

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

2.11 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.12 Share capital

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

Dividend distribution on shares is recognised as a deduction in the Company's equity when approved by the General Meeting of the Company's shareholders. Interim dividends are recognised as a deduction in the Company's equity when approved by the directors.

2.13 Adoption of IFRS 9

The Company adopted IFRS 9 in the first half of 2018, whereas the Standard's requirements were applied retrospectively by adjusting the Company's balance sheet on the date of transition on 1 January 2018. The Company applied the Standard's exemption not to restate comparative figures for prior periods, therefore the Company's 2017 comparatives are presented on an IAS 39 basis. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognised as an adjustment to opening retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in note 2.13.1.

The IFRS 9 implementation program was monitored centrally by the Parent Company which committed to ensure a high quality implementation and ongoing application of IFRS 9 to ensure sound governance and internal control framework and formed the IFRS 9 accounting policies, key processes and process flows and the ECL methodologies.

2.13.1 Transition to IFRS 9 impact

Upon transition to IFRS 9, the Company has carried out a business model assessment for the portfolios held and a review of their contractual terms (SPPI assessment) to determine the changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed at the date of initial application on 1 January 2018.

The impact of transitioning to IFRS 9 amounts to € 822 ths, which has been recognised as an opening balance adjustment at 1 January 2018 and it is attributed to the impairment for ECL of the investment securities held at amortised cost issued by the Parent Company, allocated to Stage 1.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.13.1 Transition to IFRS 9 impact (continued)

Re-classification and re-measurement of carrying amounts upon IFRS 9 transition

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

	IAS 39			Remeasurement	IFRS 9	
Financial Assets	Category	Amount €ths	Reclassification €ths	ECL €ths	Amount €ths	Category
Deposits with banks	*Loans and receivables*					*Amortised cost*
Closing balance 31.12.2017		111				
Opening balance 1.1.2018		**111**			**111**	
Financial assets designated at fair value through profit or loss	*FVTPL*					*FVTPL (mandatory)*
Closing balance 31.12.2017		9,226				
Opening balance 1.1.2018		**9,226**			**9,226**	
Held-to-maturity invesment securities						
Closing balance 31.12.2017		24,036				
Reclassifications to			(24,036)			*Amortised cost*
Opening balance 1.1.2018		**24,036**	**(24,036)**		-	
Investments securities at amortised cost						*Amortised cost*
Reclassifications from	Held-to-maturity		24,036			
Remeasurement				(822)		
Opening balance 1.1.2018				**(822)**	**23,214**	
Financial Liabilities						
Preferred securities designated at fair value through profit or loss	*FVTPL*					*FVTPL (designated)*
Closing balance 31.12.2017		9,226				
Opening balance 1.1.2018		**9,226**			**9,226**	
Preferred securities at amortised cost						
Closing balance 31.12.2017		24,035				*Amortised cost*
Opening balance 1.1.2018		**24,035**			**24,035**	

- Held-to-maturity investment securities of € 24,036 ths measured at amortised cost under IAS 39, which are held to collect contractual cash flows (hold-to-collect business model) that are solely payments of principal and interest (SPPI), are also measured at amortised cost under IFRS 9.
- Financial assets designated at fair value through profit or loss under IAS 39 of € 9,226 ths, failed the SPPI assessment and therefore are measured mandatorily at fair value through profit or loss under IFRS 9.
- Financial liabilities designated at FVTPL under IAS 39 of € 9,226 ths (preferred securities) continue to be designated and measured at FVTPL under IFRS 9 as they a) contain an embedded derivative which may significantly modify the cash flows of the host contract and b) eliminate or significantly reduce any accounting mismatch arising from measuring these liabilities on a different base from the associated assets (debt instruments at FVTPL). The effects of changes in the credit risk of these financial liabilities continue to be presented in profit or loss as in case of presenting them in other comprehensive income would result in a greater mismatch in profit or loss.
- Preferred securities measured at amortised cost under IAS 39, continue to be measured at amortised cost under IFRS 9.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.13.1 Transition to IFRS 9 impact (continued)

The table below presents the impact of transition to IFRS 9 to Retained earnings:

	IFRS 9 impact € ths
Retained earnings	
Closing balance under IAS 39	(224)
Remeasurement under IFRS 9 ECL impairment	(822)
Opening balance under IFRS 9	**(1,046)**

The impact of ECL impairment upon transition to IFRS 9 is further analyzed as follows: €54 ths for Series A, €128 ths for Series B and €640 ths for Series C.

3. Principal risks and uncertainties

The directors are responsible for the overall financial risk approach of the Company. In this regard, the directors coordinate all financial risk management activities closely with the Parent Company's risk managers to ensure that all significant financial risks are minimised. The directors have a financial risk management programme in place, the main objective of which is minimising such risks, as follows:

(a) Credit Risk: The Company takes on exposure to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when due. The aggregate carrying amount of deposits with banks, financial assets designated at fair value, held-to-maturity investment securities (policy applicable prior to 1 January 2018) and investment securities measured at amortized cost (policy applicable from 1 January 2018) approximates the maximum exposure to credit risk. Proceeds from the issue of preferred securities are invested in investment securities issued by the Parent Company. As at 31 December 2018 the credit rating of the Parent Company was Caa2, according to Moody's (31 December 2017: Caa3). In March 2019, Moody's upgraded Eurobank to Caa1.

(b) Interest rate risk: The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

The interest rate risk is managed by placing funds on debt securities issued by the Parent Company at rates which change on the same basis as the interest rates applied on preferred securities. Consequently, shifts in interest rates do not have an impact on the net interest income of the Company.

(c) Capital risk management: The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Notes to the Financial Statements (continued)

3. Principal risks and uncertainties (continued)

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt. The Company is not subject to any external capital requirements.

The Company is not exposed to significant currency or liquidity risk because most of its transactions are in euro, and the maturity of its assets and liabilities, as well as, the underlying cash flows are substantially the same.

Whilst the financial instruments held by the Company may be separately exposed, the Company itself is not exposed to any significant market risk and therefore no sensitivity analysis is disclosed.

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using another valuation technique that is appropriate in the circumstances, and maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

The Company's financial instruments carried at fair value or at amortized cost for which fair value is disclosed are categorised into the three levels of fair value hierarchy based on whether the inputs to their fair values are market observable or unobservable, as follows:

- Level 1 - Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. None of the Company's financial instruments are categorised into Level 1 of the fair value hierarchy.

- Level 2 – Financial instruments measured using valuation techniques with inputs, other than level 1 quoted prices, that are observable either directly or indirectly, such as : (i) quoted prices for identical financial instruments in markets that are not active, or (ii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, credit spreads and implied volatilities obtained from internationally recognised market data providers and (iii) other unobservable inputs which are insignificant to the entire fair value measurement. The Company's financial instruments in their entirety are categorised into Level 2 of fair value hierarchy.

- Level 3 - Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). None of the Company's financial instruments are categorised into Level 3 of the fair value hierarchy.

Notes to the Financial Statements (continued)

3. Principal risks and uncertainties (continued)

Financial instruments

The fair value hierarchy categorisation of the Company's financial assets and liabilities is presented in the following tables:

	2018				
	Level 1	Level 2	Level 3	Fair Value	Carrying amount
	€' 000	€' 000	€' 000	€' 000	€' 000
Investment securities at FVTPL (note 11)	-	12,578	-	12,578	12,578
Investment securities at amortised cost (note 11)	-	14,982	-	14,982	23,929
	-	27,560	-	27,560	36,507
Preferred securities designated at fair value (note 12)	-	12,578	-	12,578	12,578
Preferred securities at amortised cost (note 12)	-	14,982	-	14,982	23,928
	-	27,560	-	27,560	36,507

	2017				
	Level 1	Level 2	Level 3	Fair Value	Carrying amount
	€' 000	€' 000	€' 000	€' 000	€' 000
Investment securities at FVTPL	-	9,226	-	9,226	9,226
Held to maturity investment securities	-	11,457	-	11,457	24,036
	-	20,683	-	20,683	33,262
Preferred securities designated at fair value	-	9,226	-	9,226	9,226
Preferred securities at amortised cost	-	11,457	-	11,457	24,035
	-	20,683	-	20,683	33,261

The Company recognises transfers into and out of the fair value hierarchy levels at the beginning of the half year in which a financial instrument's transfer was affected. There were no transfers between Level 1 and 2 and vice versa during the year ended 31 December 2018.

<u>**Company's valuation processes and techniques**</u>

For determining the fair value of financial instruments that are not quoted in an active market, the Company uses quotes for identical financial instruments provided by Bloomberg, or widely recognized valuation models that use only observable market data and require little management estimation and judgment. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recently observed transactions in different instruments, and periodically reviewed by qualified personnel of the Parent Company, independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values also reflect the credit risk of the financial instrument and include adjustments to take into account the credit risk of the Parent Company, where appropriate.

Notes to the Financial Statements (continued)

3. Principal risks and uncertainties (continued)

As at 31 December 2018 and 2017 the fair values of preferred securities issued by the Company and their linked investment securities, were determined using quotes for identical financial instruments in markets that are not active. In particular, the preferred securities guaranteed by the Parent Company, were fair valued using prices provided by Bloomberg. The same prices were applied to the linked investment securities, which have the same terms as the preferred securities and are issued by the Parent Company.

4. Critical accounting estimates and judgements in applying accounting policies

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

4.1 Impairment losses of held to maturity investment securities

Policy applicable before 1 January 2018

The Company reviews its held to maturity investment securities to assess impairment on an ongoing basis. The Company first assesses whether objective evidence of impairment exists. Management is required to exercise judgement in making assumptions and estimates when calculating the present value of the cash flows expected to be received.

In estimating these cash flows, management makes judgements about the financial situation and outlook of the Parent Company.

4.2 Fair value of financial instruments

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

The fair value of financial instruments that are not quoted in an active market is determined by using valuation techniques. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of identical or similar financial instruments.

Given the uncertainty and subjectivity inherent in the estimation of fair value of financial instruments, changes in management assumptions and estimates could affect the reported fair values.

Notes to the Financial Statements (continued)

4.3 Classification of financial instruments

The Company applies significant judgment in assessing the classification of its financial instruments and especially, in the below areas:

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Company's business objectives. In general the assessment is performed at the business unit level. However, further disaggregation may be performed by business strategy/ region, etc.

In assessing the business model for financial instruments, the Company performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a "hold to collect" business model depending on their objective and their acceptable level and frequency.

Contractual cash flow characteristics test (SPPI test)

The Company performs the SPPI assessment of financial assets loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Units when considering whether certain contractual features significantly affect future cash flows.

The Company has established a robust framework to perform the necessary assessments in accordance with Company's policies in order to ensure appropriate classification of financial instruments, including reviews by experienced staff.

5. Interest and similar income

	2018 €' 000	2017 €' 000
Interest on financial assets designated at fair value through profit or loss	1,609	280
Interest on investment securities at amortised cost	1,426	1,202
	3,035	1,482

Interest and similar income for the year ended 31 December 2018 mainly consists of accrued and received interest of bonds' coupons.

Following the decision of the Company to redeem the preferred securities issued at the next available call dates (see Directors' Report, section b), unamortised discount of € 222 ths of the linked investment securities at cost was recognised in interest and similar income (note 11).

Notes to the Financial Statements (continued)

6. Interest expense and similar charges

	2018 €' 000	2017 €' 000
Interest on preferred securities designated at fair value through profit or loss	(1,609)	(280)
Interest on preferred securities at amortised cost	(1,424)	(1,200)
	(3,033)	(1,480)

Interest expense and similar charges for the year ended 31 December 2018 mainly consists of accrued and paid interest of preferred securities.

Following the decision of the Company to redeem the preferred securities issued at the next available call dates (see Directors' Report, section b), the unamortised discount of € 222 ths of the preferred securities at cost was recognised in interest expense and similar charges (note 12).

7. Net gains/(losses) from financial instruments designated at fair value

	2018 €' 000	2017 €' 000
Changes in fair value of financial liabilities designated at fair value	(3,352)	(3,596)
Changes in fair value of financial assets designated at fair value	3,352	3,596
	0	0

8. Operating expenses

	2018 €' 000	2017 €' 000
Fees payable to the Company's auditor for the statutory audit of the Company's annual financial statements	(20)	(26)
Secretarial and administration services	(63)	(23)
	(83)	(49)

9. Income tax expense

The Company is liable to pay Jersey income tax at 0% (2017: 0%).

10. Deposits with banks

	2018 €' 000	2017 €' 000
Deposits with the Parent Company's Group	837	111
	837	111

The sight accounts are with Eurobank Private Bank Luxenbourg S.A. and have been considered as cash and cash equivalents for the purposes of the cash flow statement (note 2.8).

Notes to the Financial Statements (continued)

11. Investment securities

Investment securities designated at fair value through profit or loss

				2018		2017	
Series	First call date	Maturity date	Interest rate	Nominal Value € '000	Fair Value € '000	Nominal Value € '000	Fair Value € '000
Series D	October 2014	29 July 2100	Fixed rate at 8.25% per annum, payable on a quarterly basis	19,500	12,578	19,500	9,226
				19,500	12,578	19,500	9,226

The financial assets designated at fair value through profit or loss represent convertible bonds issued by the Parent Company. The bonds may be redeemed prior to final maturity, at the option of the issuer, on the date presented above (first call date) and annually thereafter. In addition the bonds, subject to certain conditions, are convertible, at the option of the holder or the issuer, into ordinary shares of the Parent Company, on October 2014 and annually thereafter.

From 2013 and until the end of 2017, the Parent Company considering that (a) there were not sufficient distributable reserves to meet the payment of dividends in respect of preferred securities and (b) being a recipient of state aid, according to EU and Greek law, was not permitted to make discretionary cash payments to any third party, including the Company, decided on the non payment of investment securities' coupons of Series D.

Following the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 and in accordance with the terms of series D preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next four coupon dates. Accordingly, the Parent Company proceeded with the payment of the linked investment securities' coupons of series D, held by the Company, of € 1,609 ths during the year ended 31 December 2018.

Post balance sheet events

a) In January and April 2019, the Company received coupons of series D bonds of € 804 ths.

b) On 23 April 2019 the Company, after having obtained the prior consent of the Single Supervisory Mechanism, announced its intention to redeem the preferred securities of series D at their optional redemption price (i.e. their nominal amount plus accrued and unpaid preferred dividends until the date of redemption). The redemption will occur on 29 October 2019 in accordance with their relevant terms (available at the Parent Company's website).

Notes to the Financial Statements (continued)

11. Investment securities (continued)

Investment securities carried at amortised cost

				2018		2017	
Series	First call date	Maturity date	Interest rate	Nominal Value €'000	Carrying amount €'000	Nominal Value €'000	Carrying amount €'000
Series A	March 2013	18 March 2035	Fixed rate at 10 year euro swap rate plus 0.135% per annum, payable on an annual basis	1,604	1,615	1,604	1,603
Series B	November 2015	2 November 2035	3M Euribor plus 2.23%, payable on quarterly basis	3,704	3,716	3,704	3,716
Series C	July 2012	9 January 2036	Fixed rate 6.01% per annum, payable on a quarterly basis	18,346	18,598	18,946	18,717
				23,654	23,929	24,254	24,036

The investment securities carried at amortised cost may be redeemed prior to final maturity, at the option of the issuer, i.e. the Bank, on the dates presented above and annually or quarterly (subject to the terms of each issue) thereafter.

From 2013 and until the end of 2017, the Parent Company considering that (a) there were not sufficient distributable reserves to meet the payment of dividends in respect of preferred securities and (b) being a recipient of state aid, according to EU and Greek law, is not permitted to make discretionary cash payments to any third party, including the Company, decided the non payment of investment securities' coupons of Series A, B, and C.

Following the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 and in accordance with the terms of series A, B and C of preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next (one or four as appropriate) coupon dates. Accordingly, the Parent Company proceeded with the payment of the linked investment securities' coupons of series A, B and C, held by the Company, of € 931 ths during the year ended 31 December 2018.

During the year ended 31 December 2018, the ECL adjustment had decreased by € 109 ths, due to the improvement of the credit quality of the Parent Company. In addition, considering the fact that these investment securities were classified as short term due to the decision of the Company to redeem the preferred securities issued (see Directors' Report, section b), the cumulative ECL was reversed (€ 713 ths), as no cash shortfall is expected in respect of these instruments. Similarly, the unamortised discount of € 222 ths of the investment securities at cost has been recognised in interest and similar income (notes 2.2 and 5).

During the year, the Parent Company proceeded with the repurchase and cancellation of series C bonds held by the Company of nominal value of € 600 ths (note 12).

Notes to the Financial Statements (continued)

11. Investment securities (continued)

Post balance sheet events

a) Until May 2019, the Company received coupons of series A, B and C bonds of € 605 ths in total.

b) On 23 April 2019 the Company, after having obtained the prior consent of the Single Supervisory Mechanism, announced its intention to redeem the preferred securities of series A, B and C at their optional redemption price (i.e. their nominal amount plus accrued and unpaid preferred dividends until the date of redemption). The redemption will occur on 18 March 2020, 2 August 2019 and 9 July 2019, respectively, in accordance with their relevant terms (available in the Parent Company's website). As a result, the investment securities, linked to the preferred securities, held by the Company and issued by the Parent Company, will also be redeemed by the Bank.

c) On 29 May 2019, the Company gave notice to the holders that on 9 July 2019 will redeem Series C preferred securities. Accordingly, the Parent Company will proceed with the redemption of the linked investment securities on the same date.

12. Preferred securities

Preferred securities designated at fair value through profit or loss

		2018		2017	
Series	First call date	Nominal Value €' 000	Fair Value €' 000	Nominal Value €' 000	Fair Value €' 000
Series D	October 2014	19,500	12,578	19,500	9,226
		19,500	12,578	19,500	9,226

On 29 July 2009, the Company issued €300 million of preferred securities (series D), the outstanding nominal value of which amounts to €19.5 million. The preferred securities have no fixed redemption date and give the issuer the right to call the issue on the date presented above and annually thereafter. In addition, the securities subject to certain conditions, are convertible at the option of the holder and the issuer on October 2014 and annually thereafter into the Parent Company's ordinary shares at the lower of an exchange ratio based on a) 12% discount to the share market price during the period preceding the exchange or b) the nominal value of the Parent Company's ordinary share. All obligations of the issuer in respect of the preferred securities are guaranteed on a subordinated basis by the Parent Company. The securities, pay fixed non-cumulative dividend on a quarterly basis at a rate of 8.25% per annum. Preferred dividends on the preferred securities are declared by the directors of the Company and paid by the Company subject to the provisions relating to compulsory payments as set out in "Description of the Preferred Securities" and to certain limitations as set out in "Limitations on Payments" in the Prospectus of the issue, available at the Parent Company's website (www.eurobank.gr). The preferred securities are listed on the London Stock Exchange.

From 2013 and until the end of 2017, the directors of the Company considering the "Limitations of Payments" as set out in the Prospectus of the issue and the Parent Company's decision for the non payment of bonds coupons (note 11), proceeded with the non payment of Series D preferred dividends.

Notes to the Financial Statements (continued)

12. Preferred securities (continued)

Following the completion of the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 and in accordance with the terms of series D preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next four coupon dates. Consequently, during the year the Company has paid non-cumulative dividends of € 1,609 ths in total on series D.

Post balance sheet events

a) In January and April 2019, the Company proceeded with the payment of non-cumulative dividends of series D of € 804 ths.

b) On 23 April 2019 the Company, after having obtained the prior consent of the Single Supervisory Mechanism, announced its intention to redeem the preferred securities of series D at their optional redemption price (i.e. their nominal amount plus accrued and unpaid preferred dividends until the date of redemption). The redemption will occur on 29 October 2019 in accordance with their relevant terms (available in the Parent Company's website).

Preferred securities at amortised cost

			2018		2017	
Series	First call date	Interest rate	Nominal value €' 000	Carrying amount €' 000	Nominal value €' 000	Carrying amount €' 000
Series A	March 2010	Fixed rate at 10 year euro swap rate plus 0.125% per annum, payable on an annual basis	1,604	1,615	1,604	1,603
Series B	November 2015	3M Euribor plus 2.22%, payable on quarterly basis	3,704	3,716	3,704	3,715
Series C	January 2011	Fixed rate 6.00% per annum, payable on a quarterly basis	18,346	18,597	18,946	18,717
			23,654	23,928	24,254	24,035

The preferred securities have no fixed redemption date and give the issuer the right to call the issue at par, if certain conditions mentioned in the Offering Circular are met, on the dates presented above and annually or quarterly thereafter (subject to the terms of each issue). All obligations of the issuer in respect of the preferred securities are guaranteed on a subordinated basis by the Parent Company. The preferred securities pay non cumulative dividends which are declared by the directors of the Company and paid by the Company subject to the provisions relating to compulsory payments as set out in "Description of the Preferred Securities", and to certain limitations as set out in "Limitations on Payments" in the Prospectus of each issue, available at the Parent Company's website (www.eurobank.gr). The preferred securities are listed on various European Stock Exchanges, London, Frankfurt, Luxembourg and Euronext Amsterdam.

From 2013 and until the end of 2017, the directors of the Company considering the "Limitations of Payments" as set out in the Prospectus of each issue and the Parent Company's decision for the non payment of bonds coupons, proceeded with the non payment of dividends of series A, B and C.

Notes to the Financial Statements (continued)

12. Preferred securities (continued)

Following the completion of the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 and in accordance with the terms of series A, B and C of preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next (one or four as appropriate) coupon dates.

Consequently, during the year the Company has paid non-cumulative dividends of € 929 ths in total of series A, B and C.

Following the decision of the Company to redeem the preferred securities issued (see Directors' Report, section b), the unamortised discount of € 222 ths of the investment securities at cost has been recognised in interest expense and similar charges (notes 2.2 and 6).

During the year, the Parent Company proceeded with the purchase of series C preferred securities of face value of € 600 ths. In July 2018, the said securities were repurchased and cancelled by the Company. The payment was effected by way of the transfer to the Parent Company of series C bonds of equal face value.

Post balance sheet events

a) Until May 2019, the Company proceeded with the payment of non-cumulative dividends of series A, B and C of € 604 ths in total.

b) On 23 April 2019 the Company, after having obtained the prior consent of the Single Supervisory Mechanism, announced its intention to redeem the preferred securities of series A, B and C at their optional redemption price (i.e. their nominal amount plus accrued and unpaid preferred dividends until the date of redemption). The redemption will occur on 18 March 2020, 2 August 2019 and 9 July 2019, respectively, in accordance with their relevant terms (available in the Parent Company's website).

c) On 29 May 2019, the Company gave notice to the holders that on 9 July 2019 will redeem Series C preferred securities.

13. Share capital

	Number of shares	Ordinary share capital €'000	Share premium, net of expenses €'000
Balance 1 January 2018	310,000	310	-
Share capital increase	200,000	200	598
Balance 31 December 2018	510,000	510	598

During the year, the Company, in order to cover forthcoming expenses and its negative balance arising from the transition to IFRS 9 and the respective ECL calculated for its investment securities at amortised cost (note 2.13.1), proceeded to a share capital increase of € 800 ths (€ 798 ths net of related expenses). The said increase consisted of 200 ths new ordinary shares of € 1 par value per share, all fully paid as at 31 December 2018 by the Parent Company.

Notes to the Financial Statements (continued)

14. Related party transactions

The Company's results are included in the consolidated financial statements of Eurobank Ergasias S.A., its immediate parent undertaking, which is incorporated in Greece.

As of November 2015, the percentage of the Bank's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) stands at 2.38%. The HFSF is considered to have significant influence over the Bank pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) the Bank has entered into with the HFSF.

Further information in respect of the HFSF rights based on the aforementioned framework is provided in the section "Report of the Directors and Corporate Governance Statement" of the Annual Financial Report for the year ended 31 December 2018.

The financial statements of Eurobank Ergasias S.A. are available from its head office: 8 Othonos Street, 105 57 Athens, Greece, and from its website at www.eurobank.gr.

The outstanding balances of the related party transactions and the related income and expenses are as follows:

	31 December 2018	31 December 2017
	Parent Company's Group	Parent Company's Group
	€' 000	€' 000
Deposits with banks	**837**	111
Investment securities	**36,507**	33,262
Interest and similar income	**3,035**	1,482
Interest expense and similar charges	**(6)**	-

Emoluments of the Directors

Stephen Langan and Cheryl Anne Heslop are directors of certain subsidiaries of Intertrust Fiduciary Services (Jersey) Limited (former Elian Fiduciary Services (Jersey) Limited), including Intertrust SPV Services Limited (former Elian SPV Services Limited) which provides administrative services to the Company. The Company for the year ended 31 December 2018 recognised expenses amounting to € 31 ths relating to services provided by Intertrust entities. There were no unpaid balances to the said Company as at 31 December 2018.

15. Segmental reporting

The Company operates in one business segment i.e. providing funding to its immediate parent company, Eurobank Ergasias S.A. through the issue of preferred securities listed on various European Stock Exchanges.

No further disclosure in this regard is therefore deemed necessary.

16. Post balance sheet events

Details of post balance sheet events are provided in the following sections/notes:

Note 11- Investment securities

Note 12- Preferred securities