ERB Hellas (Cayman Islands) Limited

Annual Report

For the year ended 31 December 2018

Company's registration number: CR-117363

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Directors' Report

The Directors submit their report and the audited non statutory financial statements of the Company for the year ended 31 December 2018.

i) Business review and principal activities

The Company was incorporated under the laws of the Cayman Islands on 26 April 2002 as an exempted company with limited liability. The Company's registered number is CR-117363 and its registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company was incorporated as part of the funding strategy of Eurobank Ergasias S.A. (the "Parent Company" or the "Bank") in order to establish a program for the issuance of medium term debt instruments (EMTN). This program was last updated in September 2019. The Prospectus of EMTN program is available at the Parent Company's website (www.eurobank.gr). The outstanding issues of debt instruments are guaranteed by the Parent Company. The net proceeds of each issuance are applied by the Company to meet part of the general financing requirements of the Company's Parent Company and its subsidiaries.

The net profit for the year amounted to € 97 ths (2017: € 125 ths loss), attributable to the reversal of IFRS 9 expected credit losses (ECL). As at 31 December 2018 the total equity of the Company amounted to € 279 ths (2017: € 503 ths). During the year loan notes of face value of € 4,250 ths matured, while the Company proceeded with the issue of loan notes of face value of € 1,500 ths. No dividend was paid to shareholders during 2018 (2017: nil).

ii) 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.

Specifically, Greece's real GDP (Group's main market) grew by 1.9% in 2018 from 1.5% in 2017, according to the Hellenic Statistical Authority (ELSTAT) and it is expected at 1.8% and 2.3% in 2019 and 2020, respectively, according to the November 2019 forecast by the European Commission. The unemployment rate is expected at 17.3% and 15.4% in 2019 and 2020, respectively, while based on ELSTAT data, it stood at 16.7% in August 2019 (August 2018: 18.9%). On the fiscal front, Greece's 2018 fiscal primary balance was at 4.3% of GDP, while it is expected at 3.7% and 3.6% of GDP in 2019 and 2020, respectively, according to the 2020 Draft Budget. In August 2018, Greece concluded successfully the third economic adjustment program (TEAP) and has entered into the Enhanced Surveillance (ES), which foresees quarterly reviews. The first three quarterly reviews of the ES were successfully completed by June 2019, while the conclusion of the fourth review is expected in early December 2019. In that context, the disbursement of the first ES installment of € 970 million took place in early May 2019. The capital controls imposed in July 2015 were fully abolished from 1 September 2019 onwards. On the back of this environment, the Greek government in 2019 managed to normalize market access with the issuance of four bonds of various maturities. The yield of the 10-year benchmark bond was at 1.16% on 31 October 2019, compared to 4.40% on 31 December 2018.

Directors' Report

The major macroeconomic risks and uncertainties in Greece are associated with (i) the implementation of the reforms and privatizations' agenda in order to meet the ES targets and milestones, (ii) the attraction of new investments in the country and (iii) the geopolitical and macroeconomic conditions in the near or in broader region, including the impact of a persistent low/negative rates' environment and the external shocks from a slowdown in the regional and/ or global economy. Materialization of those risks would have potentially adverse effects on the liquidity, solvency and profitability of the Greek banking sector, including those of the Parent Company. The Parent Company's Group monitors closely the developments in the Greek and regional macroeconomic environment taking into account its direct and indirect exposure to sovereign risk.

On 5 May 2018, the ECB announced the results of the Stress Test (ST) for the four Greek systemic banks, including Eurobank. Based on feedback received by the Single Supervisory Mechanism (SSM), the ST outcome pointed to no capital shortfall and no capital plan needed for the Bank as a result of the exercise. The Parent Company will participate in the ECB SREP stress test of 2020, which is expected to be launched at the beginning of 2020 and to be concluded by the end of July 2020.

The directors monitor the progress of the Company by reference to financial and non-financial data available to them on a regular basis. Particular attention is paid to net interest income, total equity and the balances of debt instruments outstanding at the reporting date. The assessment by the directors of the Company's ongoing business model is closely associated with the business decisions and operations of the Parent Company. On the basis of the analysis of the Parent Company's and the Company's capital solvency and liquidity and having taken into account the going concern considerations (note 2), the directors have been satisfied that the Company has the ability to continue as a going concern into the foreseeable future and that it is appropriate to prepare the financial statements of the Company on a going concern basis.

iii) 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 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 will be influenced by the Parent Company's financial condition.

The principal risks and uncertainties of the Parent Company, 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).

iv) 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.

Directors' Report

v) 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:

- Anastasios Ioannidis
- Dimosthenis Archontidis (resigned on July 1, 2019)
- Nikolaos Laios
- Dimitra Spyrou (resigned on July 1, 2019)

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

vi) Parent company

The Parent Company is Eurobank Ergasias S.A., incorporated in Greece. The Parent Company's ownership is analyzed further in note 16.

vii) Directors' responsibilities in relation to the financial statements

The Directors have prepared these non statutory financial statements so as to provide a true and fair view of the state of affairs of the Company and of the profit or loss for that period. The Directors have prepared the financial statements in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

viii) Statement of disclosure of information to auditors

Each director acted during the year and up to 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 the steps that they ought to have 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.

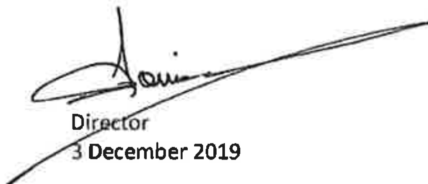
Directors' Report

ix) Independent Auditors

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

The Directors' Report was approved by the Board of Directors on 3 December 2019 and was signed on its behalf by:

Nikolaos Laios



Director
3 December 2019

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Independent Auditor's Report

To the Directors of ERB Hellas (Cayman Islands) Limited

Opinion

We have audited the Financial Statements of ERB Hellas (Cayman Islands) Limited (the "Company") which comprise the Balance Sheet as at 31 December 2018 the Statement of Comprehensive Income, Changes in Equity and Cash Flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of ERB Hellas (Cayman Islands) Limited as at 31 December 2018 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the ethical requirements that are relevant to our audit of the financial statements in Greece and we have fulfilled our other ethical responsibilities in accordance with the requirements of the applicable legislation and the aforementioned Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The Financial Statements of the Company for the year ended 31 December 2017 were audited by another Audit Firm who expressed an unmodified opinion on those Financial Statements on 4 October 2018.

Responsibilities of Directors for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

KPMG Certified Auditors S.A., a Greek Societe Anonyme and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity
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Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

— Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

KPMG Certified Auditors SA

KPMG Certified Auditors S.A.
Athens, Greece
3 December 2019

Statement of Comprehensive Income

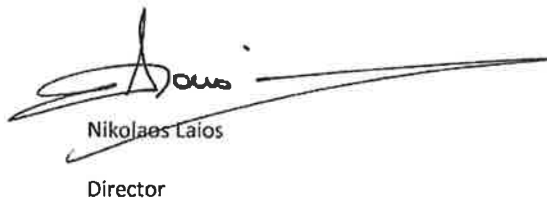
	Note	Year ended 31 December	
		2018	2017
		€'000	€'000
Interest and similar income	5	**920**	855
Interest expense and similar charges	6	**(919)**	(856)
Net Interest Income		**1**	(1)
Net gains/(losses) from financial instruments	7	**(3)**	0
Foreign exchange gains/(losses)		**19**	(64)
Impairment (losses)/reversal	11	**147**	-
Operating expenses	8	**(67)**	(60)
Profit/(Loss) before income tax		**97**	(125)
Income tax expense	9	**-**	-
Total comprehensive income/(loss) for the year attributable to the owners of the Parent Company		**97**	(125)

Notes on pages 13 to 39 form an integral part of these financial statements

Balance Sheet

	Note	At 31 December 2018 €'000	2017 €'000
Assets			
Deposits with banks	10	**4,670**	7,409
Investment securities at amortised cost	11	**6,660**	6,521
Derivative financial instruments	12	**208**	-
Other assets		**6**	5
Total assets		**11,544**	13,935
Liabilities			
Liabilities evidenced by paper at amortised cost	13	**11,003**	6,520
Liabilities evidenced by paper designated at fair value	14	-	6,822
Derivative financial instruments	12	**240**	67
Other liabilities		**22**	23
Total liabilities		**11,265**	13,432
Equity			
Share capital	15	**16**	16
Reserves and retained earnings		**263**	487
Total equity		**279**	503
Total equity and liabilities		**11,544**	13,935

The financial statements on pages 9 to 39 were approved by the Board of Directors on 3 December 2019 and were signed on its behalf by:



Nikolaos Laios

Director

Notes on pages 13 to 39 form an integral part of these financial statements

Statement of Changes in Equity

	Share capital €'000	Reserves and retained earnings €'000	Total €'000
Balance at 1 January 2017	**16**	**612**	**628**
Loss for the year	-	(125)	(125)
Total Comprehensive Loss for the year ended 31 December 2017	-	(125)	(125)
Balance at 31 December 2017	**16**	**487**	**503**
Balance at 1 January 2018	**16**	**487**	**503**
Impact of adopting IFRS 9 at 1 January 2018 (note 2.12.1)	-	(321)	(321)
Balance at 1 January 2018, as restated	**16**	**166**	**182**
Profit for the year	-	97	97
Total Comprehensive Income for the year ended 31 December 2018	-	97	97
Balance at 31 December 2018	**16**	**263**	**279**

Notes on pages 13 to 39 form an integral part of these financial statements

Cash Flow Statement

	Note	**Year ended 31 December**	
		2018	2017
		€'000	€'000
Cash flows from operating activities			
Interest and similar income received		**722**	865
Interest and similar charges paid		**(722)**	(865)
Cash payments to suppliers		**(66)**	(68)
Cash flows from operating activities before changes in operating assets and liabilities		**(66)**	(68)
Changes in operating assets and liabilities			
Net decrease/(increase) in deposits with banks		**2,769**	(972)
Net cash generated from (used in) operating activities		**2,703**	(1,040)
Cash flow from investing activities			
Sales and redemptions of investment securities		**50**	9,543
Net cash generated from investing activities		**50**	9,543
Cash flows from financing activities			
Proceeds from issue of loan notes		**1,500**	1,300
Repayments of loan notes	13	**(4,300)**	(9,934)
Net cash used in financing activities		**(2,800)**	(8,634)
Net decrease in cash and cash equivalents		**(47)**	(131)
Cash and cash equivalents at beginning of year		**520**	651
Cash and cash equivalents at end of year	10	**473**	520

Notes on pages 13 to 39 form an integral part of these financial statements

Notes to the Financial Statements

1. General information

ERB Hellas (Cayman Islands) Limited (the "Company"), is a public limited company. The Company is a subsidiary of Eurobank Ergasias S.A. (the "Parent Company" or the "Bank"). ERB Hellas (Cayman Islands) Limited is a finance company, whose sole business is raising debt for the Parent Company via medium term notes, purchased by institutional and private investors. The medium term notes outstanding are guaranteed by the Parent Company. The Company has no employees, or audit committee.

2. Accounting policies

2.1 Basis of preparation

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

The financial statements are prepared under the historical cost convention except for the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss. The accounting policies for the preparation of the financial statements have been consistently applied to the years 2018 and 2017, after taking into account the amendments in IFRS, including those following the adoption of IFRS 9, described in section 2 "Accounting policies". 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 as adopted by the European Union, 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 and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

Going concern considerations

The financial statements have been prepared on a going concern basis. In making their assessment of the Company's ability to continue as a going concern, the Directors have taken into consideration the impact of the following factors directly related with the Parent Company's operations:

The Parent Company's Group operates in an environment of positive growth rates both in Greece (Group's main market) and the other countries, in which it has a substantial presence. Specifically, Greece's real GDP growth is expected at 1.8% and 2.3% in 2019 and 2020, respectively, according to the November 2019 forecast by the European Commission. The unemployment rate is expected at 17.3% and 15.4% in 2019 and 2020, respectively, while based on ELSTAT data, it stood at 16.7% in August 2019 (August 2018: 18.9%). On the fiscal front, Greece's primary balance is expected to register a surplus of 3.7% and 3.6% of GDP in 2019 and 2020, respectively, according to the 2020 Draft Budget. The first three quarterly reviews of the Enhanced Surveillance (ES) were successfully completed by June 2019, while the conclusion of the fourth review is expected in early December 2019. In that context, the disbursement of the first ES installment of € 970 million took place in early May 2019. The capital controls imposed in July 2015 were fully abolished from 1 September 2019 onwards. On the back of this environment, the Greek government in 2019 managed to normalize market access with the issuance of four bonds of various maturities. The yield of the 10-year benchmark bond was at 1.16% on 31 October 2019, compared to 4.40% on 31 December 2018.

Notes to the Financial Statements (continued)

Regarding the outlook for the next 12 months, the major macroeconomic risks and uncertainties in Greece are associated with (i) the implementation of the reforms and privatizations' agenda in order to meet the ES targets and milestones, (ii) the attraction of new investments in the country and (iii) the geopolitical and macroeconomic conditions in the near or in broader region, including the impact of a persistent low/negative rates' environment and the external shocks from a slowdown in the regional and/ or global economy. Materialization of those risks would have potentially adverse effects on the liquidity, solvency and profitability of the Greek banking sector. The Parent company's Group monitors closely the developments in the Greek and regional macroeconomic environment taking into account its direct and indirect exposure to sovereign risk.

The Parent Company's Group CET1 ratio stood at 14.2% as at 31 December 2018 and 16.3% at 30 September 2019. The net profit attributable to shareholders amounted to € 91 million and € 82 million for the year ended 31 December 2018 and for the period ended 30 September 2019, respectively. Furthermore, the Bank has eliminated the use of ELA as of end January 2019. In addition, the Parent Company's Group deposits as at 30 September 2019 have increased by c.a. € 3.2 bn compared to 31 December 2018, improving the Parent Company's Group's (net) loans to deposits (L/D) ratio to 87.3% (31 December 2018: 92.6%), while as at 30 September 2019 the stock of NPEs were reduced to € 13.8 bn driving the NPE ratio to 31.1% (31 December 2018 NPEs stood at 15.3 bn, with a respective ratio of 37%).

Going concern assessment

The Directors of the Company, taking into account the above factors relating to the adequacy of the Parent Company's Group capital and liquidity position as well as the progress that has been made in executing its NPE reduction acceleration plan, have been satisfied that the financial statements of the Company can be prepared on a going concern basis.

(a) New standards and interpretations adopted by the Company

The following new 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, apply 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. 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)

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 2.12.1. The Company has not restated comparative information for 2017 for financial instruments in 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 performed only in rare circumstances.

For the purpose of the transition to IFRS 9, the Company carried out a business model assessment for its financial assets 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:

- Debt instruments 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.

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 has not changed.

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 attributed to classification and measurement under IFRS 9 requirements as at 1 January 2018, is disclosed in note 2.12.1.

Notes to the Financial Statements (continued)

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 attributed to new impairment under IFRS 9 requirements as at 1 January 2018, is disclosed in note 2.12.1.

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. In addition, these financial statements include, the enhanced classification and measurement and impairment disclosures as required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

(b) Amendments to standards and interpretations not yet adopted by the Company

A number of 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.

Those that may be relevant to the Company are set out below:

IFRS 9, Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019)

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

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

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

Notes to the Financial Statements (continued)

Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020, not yet endorsed by EU)

In March 2018, the IASB issued its revised Conceptual Framework. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced a new chapter of measurement, updated definitions of an asset/liability and recognition criteria, as well as clarifications on important areas.

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

Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020, not yet endorsed by EU)

The amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" aim to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition an information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

The adoption is not expected to impact the Company's financial statements.

2.2 Interest income and expense

Policy applicable from 1 January 2018

Interest income and expense is 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 instruments, 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.

Notes to the Financial Statements (continued)

Policy applicable before 1 January 2018

Interest income and expense is recognised 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.

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 profit or loss.

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 profit or loss. 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.

The paid up share capital denominated in US dollars has been translated into euro on the exchange rate at the date of issue.

2.4 Financial assets

Policy applicable from 1 January 2018

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.

Notes to the Financial Statements (continued)

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.

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 instruments that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment and financial assets held for trading. Derivative financial instruments are measured at FVTPL.

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.

Notes to the Financial Statements (continued)

Debt instruments classified within this business model include investment securities 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 management are consistent with this business model, where sales of assets are integral to achieving the objectives of this business model.

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.

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 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.

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 and loans and receivables and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition.

Notes to the Financial Statements (continued)

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

This category has two sub-categories: a) financial assets held for trading i.e. derivatives and b) those 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:

- it eliminates or significantly reduces measurement or recognition inconsistencies; or
- financial assets share the same risks with financial liabilities and those risks are managed and evaluated on a fair value basis ; or
- 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 or as available-for-sale. Securities classified in this category are presented in Investment Securities under Debt Securities Lending portfolio.

(iii) Available-for-sale

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

Accounting treatment and calculation

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

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

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 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 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.

Notes to the Financial Statements (continued)

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.

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 half year 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

Notes to the Financial Statements (continued)

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

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, 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 its internal rating is not available.

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.

Notes to the Financial Statements (continued)

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 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.

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.

ECL Key Inputs

The Company uses for the ECL calculations the term structures of the probability of default -PD (12-month PD & Lifetime PD), the loss given default (LGD) and the exposure at default (EAD). Generally, these parameters are based on observed point-in-time and historical data obtained by international rating agencies, which maximize the use of objective non-judgmental variables and market data.

Notes to the Financial Statements (continued)

Forward-looking information

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

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 in 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 recognized 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 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;

(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 reorganisation;

Notes to the Financial Statements (continued)

(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 investment securities 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 and the amount of the loss is recognised in the profit or loss.

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. The amount of the reversal is recognised in the profit or loss.

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 borrower's financial position to such extent that the borrower can no longer pay his obligation.

2.7 Financial liabilities

Policy applicable from 1 January 2018

The Company may classify its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities measured at fair-value-through-profit-or-loss (FVTPL).

Financial liabilities FVTPL comprise two sub categories: financial liabilities held for trading and financial liabilities designated at FVTPL upon initial recognition.

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 FVTPL when one of the following criteria is met:

- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise from measuring assets or liabilities or recognizing 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.

Notes to the Financial Statements (continued)

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

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 (FVTPL).

Financial liabilities at FVTPL have two sub categories: financial liabilities held for trading and financial liabilities designated at FVTPL upon initial recognition.

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

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

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

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

Derecognition of financial liabilities

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 profit or loss.

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.

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

2.8 Cash and cash equivalents

Cash and cash equivalents include sight accounts and deposits held with banks with original maturities of three months or less.

2.9 Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Notes to the Financial Statements (continued)

Fair values of derivatives are determined using valuation techniques, as appropriate. Changes in the fair value of any derivative financial instrument are recognized immediately in the profit or loss. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in notes 2.5 and 3.

Embedded derivatives

Financial assets that contain embedded derivatives are recognised in the balance sheet in their entirety in the appropriate classification category, following instruments' assessment of their contractual cash flows and their business model as described in note 2.4.

On the other hand, derivatives embedded in financial liabilities, are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

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) Directors of the Company and the key management personnel of the Company or its parent, 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 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.

2.12 Adoption of IFRS 9

The Company adopted IFRS 9 in 2018. 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 recognized as an adjustment to opening retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in note 2.12.1.

The IFRS 9 implementation program was monitored centrally by the Parent Company, which is 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.

Notes to the Financial Statements (continued)

2.12.1 Transition to IFRS 9 impact

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

The impact of transitioning to IFRS 9 amounts to € 321 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 at amortised cost and time deposits with the Parent Company, with total gross amount of **€ 6,521** ths and **€** 3,332 ths, respectively, allocated at Stage 1.

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	
	Category	Amount	Reclassification	ECL	Amount	Category
Financial Assets		€ ths	€ ths	€ ths	€ ths	
Deposits with banks	*Loans and receivables*					*Amortised cost*
Closing balance 31.12.2017		3,332				
Remeasurement				(97)		
Opening balance 1.1.2018		**3,332**	**-**	**(97)**	**3,235**	
Deposits with banks at FVTPL						
Closing balance 31.12.2017	*FVTPL*	4,077				
Reclassifications to						*FVTPL - Mandatorily*
Opening balance 1.1.2018		**4,077**	**-**	**-**	**4,077**	
Investment securities	*Loans and receivables*					*Amortised cost*
Closing balance 31.12.2017		6,521				
Remeasurement				(224)		
Opening balance 1.1.2018		**6,521**	**-**	**(224)**	**6,297**	
Derivative financial instruments (assets)						
Reclassifications from	*Liabilities evidenced by paper at FVTPL*		228			*FVTPL*
Opening balance 1.1.2018			**228**	**-**	**228**	
Financial Liabilities						
Liabilities evidenced by paper at amortised cost	*Amortised cost*					
Closing balance 31.12.2017		6,520				
Reclassifications from	*FVTPL*		7,050			*Amortised cost*
Opening balance 1.1.2018		**6,520**	**7,050**		**13,570**	
Liabilities evidenced by paper designated at FVTPL	*FVTPL*					
Closing balance 31.12.2017		6,822				
Reclassifications to			(7,050)			*Amortised cost*
			228			*FVTPL - Derivative financial instruments (assets)*
Opening balance 1.1.2018		**6,822**	**(6,822)**	**-**	**-**	

Notes to the Financial Statements (continued)

• Deposits with Banks and Investment securities of € 3,332 ths and € 6,521 ths respectively measured at amortized cost under IAS 39, are also measured at amortized cost under IFRS 9.

• Financial liabilities that are designated at FVTPL under IAS 39 (structured notes) of € 6,822 ths are measured at amortized cost, while embedded derivatives are separated from the host contracts, where appropriate. The Company has revoked the designation as permitted by IFRS 9.

• Structured deposit of € 4,077 ths designated at FVTPL under IAS 39, is also measured at FVTPL under IFRS 9 as it fails the SPPI assessment.

• Financial liabilities measured at amortized cost under IAS 39 of € 6,520 ths, are also measured at amortized cost under IFRS 9.

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	487
Remeasurement under IFRS 9 ECL impairment	(321)
Opening balance under IFRS 9	166

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 cash proceeds generated from the EMTN program are placed on deposits with the Parent Company and investment securities issued by the Parent Company. The aggregate carrying amount of these deposits and investment securities approximates the maximum credit risk exposure of the Company. Financial assets are neither past due nor impaired.

(b) Market risk: The Company takes on exposure to interest rate and currency risk. The management has a policy of minimising such risks as follows:

- 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 eliminated by placing funds on deposits with the Parent Company and debt securities issued by the Parent Company at rates which change on the same basis as the interest rates applied on loan notes, or by the use of interest rate swaps.

- Currency risk: The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Currency risk is largely managed by placing funds on deposits and investment securities at the same currency as the loan notes issued.

Notes to the Financial Statements (continued)

(c) Liquidity Risk: The Company is not exposed to liquidity or cash flow risk because the maturity of its assets and liabilities, and the underlying cash flows, are substantially the same. The cash proceeds generated from the EMTN programmes are placed on deposits with the Parent Company, on the same terms.

The amounts disclosed in the table below are the contractual undiscounted cash flows of financial liabilities by remaining contractual maturities (or call/put dates where applicable) at the balance sheet date. The cash flows of derivative financial instruments are grouped together with those for the loan notes.

	2018				
	Less than 1 month €' 000	1 - 3 months €' 000	3 months to 1 year €' 000	Over 1 year €' 000	Gross nominal outflow €' 000
Financial liabilities:					
- Loan notes	19	6,891	68	4,608	11,586
Other liabilities	-	-	22	-	22
	19	6,891	90	4,608	11,608

	2017				
	Less than 1 month €' 000	1 - 3 months €' 000	3 months to 1 year €' 000	Over 1 year €' 000	Gross nominal outflow €' 000
Financial liabilities:					
- Loan notes	-	152	4,743	9,976	14,871
Other liabilities	-	-	23	-	23
	-	152	4,766	9,976	14,894

(d) 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. 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 requirement.

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 are measured based on quoted prices (unadjusted) in active markets for identical financial instruments that the Company 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

Notes to the Financial Statements (continued)

occurring transactions. None of the Company's financial instruments are categorized into Level 1 of the fair value hierarchy.

- Level 2 – Financial instruments are measured using valuation techniques with inputs other than level 1 quoted prices, observable either directly or indirectly, such as (i) quoted prices for identical financial instruments in markets that are not active, (ii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognized market data providers and (iii) other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments include less liquid loan notes issued or held by the Company, deposits with the Parent Company and over-the-counter (OTC) derivatives.
- Level 3 - Financial instruments are 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 categorized into Level 3 of the fair value hierarchy.

The fair value hierarchy categorization of the Company's financial assets and liabilities carried at fair value/amortized cost at 31 December 2018 and 2017 is presented in the following tables:

	2018				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value	Carrying amount
Financial assets measured at fair value:					
Derivative financial instruments	-	208	-	208	208
	-	208	-	208	208
Financial assets not measured at fair value:					
- Investment securities at amortised cost	-	6,831	-	6,831	6,660
-Term deposits with Banks ato amortized cost	-	3,750	-	3,750	4,197
	-	10,581	-	10,581	10,857
Financial liabilities measured at fair value:					
Derivative financial instruments	-	240	-	240	240
	-	240	-	240	240
Financial liabilties not measured at fair value:					
Liabilities evidenced by paper at amortised cost	-	10,581	-	10,581	11,003
	-	10,581	-	10,581	11,003

	2017				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value	Carrying amount
Financial assets measured at fair value:					
Deposits with banks	-	4,077	-	4,077	4,077
	-	4,077	-	4,077	4,077
Financial assets not measured at fair value:					
Investment securities at amortized cost	-	7,148	-	7,148	6,521
	-	7,148	-	7,148	6,521
Financial liabilities measured at fair value:					
Liabilities evidenced by paper designated at fair value	-	6,822	-	6,822	6,822
Derivative financial instruments	-	67	-	67	67
	-	6,889	-	6,889	6,889
Financial liabilties not measured at fair value:					
Liabilities evidenced by paper at amortised cost	-	7,148	-	7,148	6,520
	-	7,148	-	7,148	6,520

Notes to the Financial Statements (continued)

There were no transfers between Level 1 and 2 and vice versa, as well as, no changes in valuation techniques used, during the year ended 31 December 2018.

Company's valuation processes and techniques

For determining the fair value of financial instruments that are not quoted in an active market, the Company uses quotes for identical or similar financial instruments provided by Bloomberg or widely recognized valuation techniques, including counterparty valuations derived from recognized international institutions, that use mainly observable market data and require little management estimation and judgment. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel of the Parent Company, independent of the personnel that created them.

The models which have been developed by Parent Company's appropriate personnel, are certified before they are used and 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. Valuation controls may include verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration, analysis of significant valuation movements, etc.

The assumptions and methodologies underlying the calculation of fair values of financial instruments are presented below. In particular, as at 31 December 2018 and 2017:

- For certain loan notes issued by the Company and their respective mirror assets (investment securities at amortized cost), the fair values are determined based on quotes for identical or similar investment securities in markets that are not active, derived from Bloomberg.
- The fair value of interest rate swaps is provided by recognized international institutions, using mainly observable market data.
- The fair value of long term deposits with banks and the remaining loan notes issued by the Company, is determined by using valuation models that use only observable market data such as equity/index level implied volatilities and yield curves. Fair values reflect also the credit risk of the financial instrument and include adjustments to take into account the credit risk of the Parent Company, where appropriate. The credit risk of the Parent Company is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Parent Company's subsidiaries or other Greek issuers.

4. Critical accounting estimates and judgments

In the process of applying the Company's accounting policies, the directors make various judgments, estimates and assumptions that affect the reported amounts of assets and liabilities recognized in the financial statements within the next financial year. Estimates and judgments are continually 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 judgements, estimates and assumptions in applying its accounting policies are set out below:

Notes to the Financial Statements (continued)

4.1 Deposits with banks and investment securities at amortised cost

The Company's proceeds from loan notes have been placed in deposits with the Parent Company and in investment securities at amortized cost issued by the Parent Company. The directors' assessment of the recoverability of these assets is closely associated with the operations of the Parent Company and includes reviews of liquidity and solvency (see note 2.1 Going concern considerations and note 10).

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized. The ECL calculations for the Company's financial assets are outputs of models with a number of underlying assumptions regarding the choice of the input parameters i.e. the EAD, PDs, and LGDs. These parameters are determined based on market data provided by international rating agencies and are monitored and evaluated by Group's Market Risk Sector.

A reasonably possible change in the PD used, by +1%/-1% would increase/decrease the total ECL charge in deposits with the Parent Company and investment securities issued by the Parent Company by € 29 ths.

4.2 Fair value of financial instruments

The fair values of financial instruments that are not quoted in an active market are determined either by using valuation techniques, or by market quotes for identical or similar securities. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment 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 similar financial instruments or by using models.

The valuation techniques used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement.

Valuation techniques are used to value deposits with banks, derivative instruments and loan notes issued or held by the Company.

The main assumptions and estimates, considered by management when applying a valuation model include:

(a) the likelihood and expected timing of future cash flows;
(b) the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
(c) judgment to determine what model to use in order to calculate fair value.

To the extent practicable, models use only observable data, however areas such as credit risk, volatilities and correlations require management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs. Valuation techniques used to calculate fair values are further discussed in note 3.

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. This assessment is based on the financial instruments' characteristics, and the way these are managed in order to achieve the Company's business objectives.

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 (deposits and investment securities) by considering all the features which might potentially lead to SPPI failure. Judgment is applied 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 Group's experienced staff.

5. Interest and similar income

	Year ended 31 December	
	2018	2017
	€' 000	€' 000
Interest income on investment securities	**840**	810
Interest income on deposits with the Parent Company	**80**	45
	920	855

6. Interest expense and similar charges

	Year ended 31 December	
	2018	2017
	€' 000	€' 000
Interest expense on liabilities evidenced by paper	**(839)**	(811)
Interest expense on derivative financial instruments	**(80)**	(45)
	(919)	(856)

7. Net gains/ (losses) from financial instruments

	Year ended 31 December	
	2018	2017
	€' 000	€' 000
Changes in fair value of liabilities evidenced by paper	**-**	(574)
Changes in fair value of derivative financial instruments managed with liabilities evidenced by paper	**(176)**	31
Changes in fair value of deposits managed with liabilities evidenced by paper	**173**	543
	(3)	0

Notes to the Financial Statements (continued)

8. Operating expenses

	Year ended 31 December	
	2018	2017
	€' 000	€' 000
Fees payable to the auditor for the non statutory audit of the Company's annual financial statements	**(23)**	(21)
EMTN update and other costs	**(44)**	(39)
	(67)	(60)

9. Income tax expense

The Company was incorporated under the laws of the Cayman Islands as an exempted company with limited liability and, accordingly, has no liability to taxation in the Cayman Islands. In addition, the Company is non-UK resident and therefore not liable to corporation tax in the UK or any other country.

10. Deposits with banks

	2018	2017
	€' 000	€' 000
Deposits with the Parent Company at amortised cost		
- Gross carrying amount	**4,801**	3,332
- Cumulative 12-month ECL allowance	**(131)**	-
Deposits with the Parent Company at fair value	-	4,077
Total carrying amount	**4,670**	7,409
Maturing over 1 year	**4,300**	2,800
With original maturity of less than 90 days (cash and cash equivalents) - gross carrying amount	**473**	520

In November 2018 the deposits at FVTPL with the Parent Company matured.

As a result of the transition to IFRS 9, the Company recognized for its deposits with the Parent Company expected credit losses, which at 31 December 2018 amounted to € 131 ths.

11. Investment securities at amortised cost

	2018	2017
	€' 000	€' 000
Investment securities carried at amortised cost		
- Gross carrying amount	**6,703**	6,521
- Cumulative 12-month ECL allowance	**(43)**	-
	6,660	6,521
Maturing over 1 year	-	6,521

As at 31 December 2018, the Company held unlisted notes issued by the Parent Company of face amount of € 6.7 million (2017: € 6.8 million). Following the transition to IFRS 9, the notes were classified and measured at amortized cost.

As a result of the transition to IFRS 9, the Company recognized for its investment securities issued by the Parent Company expected credit losses of € 224 ths. During the year ended 31 December 2018, the ECL adjustment decreased by € 181 ths, totaling to € 43 ths, mainly due to the improvement of the credit quality of the Parent Company.

Notes to the Financial Statements (continued)

Post balance sheet event

In March 2019 investment securities of face value of € 6,725 ths matured.

12. Derivative financial instruments

The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. The Company utilizes interest rate swaps in order to exchange loan notes cash flows for interest payments derived from deposits with the Parent Company, as set out in note 3.

The fair values of derivative financial instruments held are set out in the following table:

	2018			2017		
	Contract/ notional amount €'000	Fair values Assets €'000	Liabilities €'000	Contract/ notional amount €'000	Fair values Assets €'000	Liabilities €'000
Derivatives held for trading						
-Interest rate swaps	10,600	208	240	2,800	-	67
	10,600	208	240	2,800	-	67

13. Liabilities evidenced by paper at amortised cost

			2018		2017	
	Interest rate %	Currency	Face amount €' 000	Carrying amount €' 000	Face amount €' 000	Carrying amount €' 000
Fixed rate loan notes	9.0	EUR	6,725	6,703	6,775	6,520
Fixed rate loan notes	0.0	EUR	4,300	4,300	-	-
			11,025	11,003	6,775	6,520

Under the program for issuance of debt instruments, loan notes are unconditionally and irrevocably guaranteed by the Parent Company, on a subordinated or an unsubordinated basis, as specified in the relevant Final Terms. All loan notes issued as at 31 December 2018 are on an unsubordinated basis.

As part of the Company's risk management strategy, these notes are managed by placing funds on debt securities issued by the Parent Company, or deposits with the Parent Company (note 3).

During the year loan notes of face value of € 4,250 ths matured, while the Company proceeded with the issue of loan notes of face value of € 1,500 ths and the partial redemption of notes of € 50 ths face value.

The loan notes mature in 2019, 2021, 2022 and 2023.

Post balance sheet events

In January 2019, the Company proceeded with the issue of loan notes of face value € 2,000 ths.
In March 2019, loan notes of face value of € 6,725 ths matured.

14. Liabilities evidenced by paper designated at fair value

	2018 €' 000	2017 €' 000
Loan notes	-	6,822
	-	6,822

As a result of the transition to IFRS 9, the Company has revoked the designation of financial liabilities at FVTPL, separating the embedded derivative from the host contract.

Notes to the Financial Statements (continued)

15. Share capital

	2018 Number	2018 US$'000	2017 Number	2017 US$'000
Authorised ordinary shares of US$ 1 each	50,000	50	50,000	50
Authorised preference shares of US$ 100,000 each	1,500	150,000	1,500	150,000
Issued ordinary shares of US$ 1 each	50,000	50	50,000	50
Allotted and paid up 49,999 ordinary shares at US$ 0.30 per ordinary share and 1 ordinary share at US$ 1	50,000	15	50,000	15

The paid up share capital of US$ 15,001 is reflected in the non statutory financial statements as € 16,436 based on the exchange rate at the date of issue.

16. Related party transactions

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

In May 2019, following the increase of the share capital of the Parent Company, the percentage of the Bank's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 2.38% to 1.40%. The HFSF is still 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.

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 & Parent Company's subsidiaries €' 000	Parent Company & Parent Company's subsidiaries €' 000
Deposits with banks	4,670	7,409
Invetsment securities	6,660	6,521
Liabilities evidenced by paper at amortised cost	459	116
Liabilities evidenced by paper designated at fair value	-	1,535
Derivative financial instruments (liabilities)	240	67
Interest and similar income	920	855
Interest expense and similar charges	(117)	(94)

Emoluments of directors

The directors provide services to a number of Group companies for which are compensated by the Parent Company. Accordingly, these financial statements include no emoluments in respect of any director as it is not practicable to apportion the salary element. The Company employed no staff during 2018 and 2017.

Notes to the Financial Statements (continued)

17. Segmental reporting

The Company operates one business segment i.e. providing funding to Eurobank Ergasias S.A., through loan notes issued to a wide range of investors.

18. Post balance sheet events

Note 11- Investment securities at amortised cost

Note 13- Liabilities evidenced by paper at amortised cost