EUROBANK ERGASIAS SERVICES and HOLDINGS S.A.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2020

8 Othonos Street, Athens 105 57, Greece

www.eurobankholdings.gr, Tel.: (+30) 214 40 61000

General Commercial Registry No: 000223001000

Notes to the Financial Statements

Balance Sheet

	Note	31 December 2020 € million	31 December 2019 € million
ASSETS			
Cash and balances with central banks		**-**	2,626
Due from credit institutions	5.1	**14**	3,459
Securities held for trading		**-**	50
Derivative financial instruments		**-**	2,278
Loans and advances to customers	12	**-**	29,698
Investment securities	13	**942**	6,580
Shares in subsidiaries	14	**4,091**	1,855
Investments in associates and joint ventures		**-**	100
Property and equipment		**0**	564
Investment property		**-**	721
Goodwill and other intangible assets		**0**	313
Deferred tax assets	10	**-**	4,754
Other assets	15	**4**	1,799
Assets of disposal groups classified as held for sale		**-**	49
Total assets		**5,051**	54,846
LIABILITIES			
Due to central banks		**-**	1,900
Due to credit institutions		**-**	8,201
Derivative financial instruments		**-**	2,724
Due to customers		**-**	32,693
Debt securities in issue	16	**947**	2,390
Other liabilities	17	**1**	1,081
Total liabilities		**948**	48,989
EQUITY			
Share capital	18	**816**	853
Share premium	18	**8,056**	8,056
Reserves and retained earnings	19	**(4,769)**	(3,054)
Hybrid capital	20	**-**	2
Total equity		**4,103**	5,857
Total equity and liabilities		**5,051**	54,846

Notes on pages 6 to 57 form an integral part of these financial statements.

Income Statement

	Note	Year ended 31 December 2020 € million	2019 Restated [1] € million
Interest income		**121**	186
Interest expense		**(58)**	-
Net interest income	6	**63**	186
Commission income/(expense)	7	**(8)**	(12)
Other income/(expenses)		**(2)**	(42)
Operating income		**53**	132
Operating expenses	8	**(9)**	(8)
Profit from operations before impairments and provisions		**44**	124
Impairment losses relating to loans and advances to customers	9	**(1,508)**	(207)
Other impairment losses and provisions	13	**(7)**	-
Loss before tax		**(1,471)**	(83)
Income tax	10	**-**	24
Net loss from continuing operations		**(1,471)**	(59)
Net profit/(loss) from discontinued operations	11	**(41)**	90
Net profit/(loss)		**(1,512)**	31

[1] The comparative information has been adjusted with the presentation of the operations of the hived down banking sector as discontinued (note 11).

Notes on pages 6 to 57 form an integral part of these financial statements.

Statement of Comprehensive Income

	Year ended 31 December			
	2020		2019 Restated [1]	
	€ million		€ million	
Net profit/(loss)		**(1,512)**		31
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Cash flow hedges				
- changes in fair value, net of tax	**8**		12	
- transfer to net profit, net of tax	**(1)**	**7**	(17)	(5)
Debt securities at FVOCI				
- changes in fair value, net of tax	**(143)**		696	
- transfer to net profit, net of tax	**(46)**	**(189)**	(287)	409
		(182)		404
Items that will not be reclassified to profit or loss:				
-Actuarial gains/ (losses) on post employment benefit obligations,net of tax		**(0)**		(4)
Other comprehensive income		**(182)**		400
Total comprehensive income				
- from continuing operations		**(1,471)**		(59)
- from discontinued operations		**(223)**		490
		(1,694)		431

[1] The comparative information has been adjusted with the presentation of the operations of the hived down banking sector as discontinued (note 11).

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Statement of Changes in Equity

	Share capital € million	Share premium € million	Reserves and Retained earnings € million	Hybrid capital € million	Total € million
Balance at 1 January 2019	656	8,056	(4,371)	42	4,383
Net profit	-	-	31	-	31
Other comprehensive income	-	-	400	-	400
Total comprehensive income for the year ended 31 December 2019	-	-	431	-	431
Merger with Grivalia Properties REIC	197	-	890	-	1,087
Hybrid capital's dividend paid, net of tax	-	-	(4)	(40)	(44)
	197	-	886	(40)	1,043
Balance at 31 December 2019	853	8,056	(3,054)	2	5,857
Balance at 1 January 2020	**853**	**8,056**	**(3,054)**	**2**	**5,857**
Net loss	-	-	(1,512)	-	**(1,512)**
Other comprehensive income	-	-	(182)	-	**(182)**
Total comprehensive income for the year ended 31 December 2020	**-**	**-**	**(1,694)**	**-**	**(1,694)**
Share capital decrease and capitalization of taxed reserves (note 18)	(37)	-	(21)	-	**(58)**
Hybrid capital's redemption and dividend paid, net of tax	-	-	(0)	(2)	**(2)**
	(37)	**-**	**(21)**	**(2)**	**(60)**
Balance at 31 December 2020	**816**	**8,056**	**(4,769)**	**-**	**4,103**
	Note 18	Note 18	Note 19	Note 20	

Notes on pages 6 to 57 form an integral part of these financial statements.

Cash Flow Statement

	Note	Year ended 31 December 2020 € million	2019 Restated [1] € million
Cash flows from continuing operating activities			
Profit/(loss) before income tax from continuing operations		**(1,471)**	(83)
Adjustments for :			
Impairment losses relating to loans and advances to customers	9	**1,508**	207
Other impairment losses and provisions		**7**	-
Depreciation and amortisation		**0**	-
Other adjustments		**(3)**	-
		41	124
Changes in operating assets and liabilities			
Net (increase)/decrease in due from credit institutions		**2**	-
Net (increase)/decrease in loans and advances to customers		**(24)**	13
Net (increase)/decrease in other assets		**(7)**	-
Net increase/(decrease) in other liabilities		**3**	-
		(26)	13
Net cash from/(used in) continuing operating activities		**15**	137
Cash flows from continuing investing activities			
Acquisition of subsidiaries and participation in capital increases	14	**(1)**	-
Net cash from/(used in) continuing investing activities		**(1)**	-
Net increase in cash and cash equivalents from continuing operations		**14**	137
Net cash flows from discontinued operating activities		**(74)**	1,377
Net cash flows from discontinued investing activities		**(903)**	1,150
Net cash flows from discontinued financing activities		**(8)**	(381)
Net increase/(decrease) in cash and cash equivalents from discontinued operations		**(985)**	2,146
Cash and cash equivalents of hived down banking sector on 20 March 2020		**(1,788)**	-
Cash and cash equivalents at beginning of year		**2,773**	490
Cash and cash equivalents at end of year	21	**14**	2,773

[1] *The comparative information has been adjusted with the presentation of the operations of the hived down banking sector as discontinued (note 11).*

Notes on pages 6 to 57 form an integral part of these financial statements.

1. General information

On 20 March 2020, the demerger of “Eurobank Ergasias S.A.” (Eurobank Ergasias or Demerged Entity) through the banking sector’s hive down and its transfer to a new credit institution that has been established under the corporate name “Eurobank S.A.” (the Bank) was completed. Following the above, the corporate name of the Demerged Entity has been amended to “Eurobank Ergasias Services and Holdings S.A.” (the Company or Eurobank Holdings) (note 4).

Eurobank Holdings is a holding company, parent of Eurobank S.A. and its subsidiaries (Eurobank S.A Group), and along with its other subsidiaries held directly, form Eurobank Holdings Group (the Group). The Company operates mainly in Greece and through Eurobank’s subsidiaries in Central and Southeastern Europe. Its main activities relate to the strategic planning of the administration of non-performing loans and the provision of services to its subsidiaries and third parties, while the Eurobank S.A. Group is active in retail, corporate and private banking, asset management, treasury, capital markets and other services. The Company is incorporated in Greece and its shares are listed on the Athens Stock Exchange.

These financial statements were approved by the Board of Directors on 12 April 2021. The Independent Auditor’s Report is included in the section V of the Annual Financial Report.

2. Basis of preparation and principal accounting policies

The financial statements of the Company have been prepared on a going concern basis and in accordance with the principal accounting policies set out below:

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB, as endorsed by the European Union (EU), and in particular with those standards and interpretations, issued and effective or issued and early adopted as at the time of preparing these financial statements.

The financial statements are prepared under the historical cost basis except for the financial assets measured at fair value through other comprehensive income, financial assets and financial liabilities (including derivative instruments) measured at fair-value-through-profit-or-loss and investment property measured at fair value.

On 20 March 2020, the demerger of Eurobank Ergasias S.A. (Demerged Entity) through the banking sector’s hive down and the establishment of a new company-credit institution under the corporate name ‘Eurobank S.A.’ (Beneficiary) was completed. The hive down was accounted for as a capital reorganization of the transferred business on the basis that no substantive economic change has occurred. Accordingly, as at the aforementioned date, the assets and liabilities transferred to Eurobank S.A. were derecognised from the balance sheet of Eurobank Ergasias S.A. and an investment in the Beneficiary was recognised at cost, which is the carrying value of the net assets given up (notes 1 and 4). In addition, on 23 March 2020, the corporate name of the Demerged Entity was amended to ‘Eurobank Ergasias Services and Holdings S.A’. As a result of the accounting treatment of the hive down, the accounting policies in these financial statements for the period 1 January to 20 March 2020 (i.e. date of hive down) are consistent with those in the financial statements of Eurobank Ergasias S.A. for the year ended 31 December 2019, except as described in note 2.1.1 “New and amended standards and interpretations”. In addition, the accounting policies set out in note 2.2, where applicable, were applied consistently for the period following the completion of the hive down.

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

The Company’s presentation currency is the Euro (€). Except as indicated, financial information presented in Euro has been rounded to the nearest million. The figures presented in the notes may not sum precisely to the totals provided due to rounding.

Going concern considerations

The Company’s business strategy and activities are linked to those of its banking subsidiary Eurobank S.A. In this context, the directors monitor closely the capital and liquidity position of the Bank as well as the associated risks, uncertainties and the mitigating factors affecting its operations. The annual financial statements have been prepared on a going concern basis, as the Board of the Directors considered as appropriate, taking into consideration the following:

During 2020 and the first quarter of 2021, the outbreak of Covid-19 pandemic and the measures adopted to contain the virus expansion defined the economic environment in Greece and globally. The deterioration of the epidemiological situation in Greece as of the fourth quarter of 2020 and the consequent pressure on the health system led to the extension of restrictive measures, including countrywide lockdowns, which have posed further uncertainties and risks for both the macroeconomic environment and the ability of numerous businesses to operate. Based on Hellenic Statistical Authority (ELSTAT) provisional data, the real GDP growth rate in 2020 registered a decrease of -8.2% on an annual basis, from 1.9% increase in 2019, mainly as a result of the drop in the final consumption expenditure and exports of services. Based on Eurostat data, the Euro-area real GDP growth rate figures were at -6.6% and 1.3% for 2020 and 2019 respectively. According to the European Commission (EC) winter economic forecasts (February 2021) the real GDP growth rate for 2021 and 2022 is expected at 3.5% and 5% respectively. Based on ELSTAT data, the average unemployment rate stood at 16.3% in 2020 (2019: 17.3%). According to EC autumn economic forecasts (November 2020) the unemployment rate was expected at 17.5% and 16.7% for 2021 and 2022 respectively.

On the fiscal front, according to the 2021 Budget forecasts, the primary balances for 2020 and 2021 are expected to register a deficit of 7.2% and 3.9% of GDP respectively, as a result of the fiscal support measures, while the gross public debt is expected at 208.9% and 199.6% of GDP for 2020 and 2021 respectively. The deviation from the Enhanced Surveillance (ES) primary surplus target of 3.5% of GDP for both 2020 and 2021 will not be considered a violation of Greece's commitments undertaken in the ES framework, as on 4 March 2020 Eurogroup decided that non-permanent deviations from the agreed fiscal paths of the member-states, due to unusual effects outside the control of their governments (i.e. the effects of the pandemic), are acceptable. According to the 15 March 2021 Eurogroup, the deviation from the ES target will continue in 2022, on a preliminary basis. The aforementioned primary balance and public debt forecasts might change significantly as a result of the actual size of the public sector's support measures and the reduction in tax revenues due to the Government's relevant moratoria and the decline of economic activity.

In response to the Covid-19 outbreak, there has been an unprecedented monetary, fiscal and regulatory support to the economy and the banking system by both Greek Government and European authorities. According to the 2021 Budget, the Greek government's planned total measures aiming to address the economic effects of the Covid-19 pandemic amount to € 31.5 billion of which € 23.9 billion correspond to 2020 and € 7.6 billion to 2021, including the cost of the ruling of the Council of State on pension cuts. According to the Ministry of Finance as of 29 March 2021, the support measures are expected to further increase to € 14.5 billion for 2021 and at € 38.0 billion for 2020 and 2021. These measures include, among others: (a) the reduction of the private sector's social security contributions by 3 percentage points and the abolishment of the Special Solidarity levy for the private sector (only for 2021); the reduction of advanced income tax payment for firms and freelancers, (b) the payment by the government of the social security contributions for employees under labour suspension, (c) the suspension of VAT payments for firms affected by the Covid-19 pandemic, the social security and the tax related debt instalments for firms and freelancers, (d) the temporary economic support to wage earners under labour suspension, to seasonal employees (tourism sector), and to certain scientific sectors, (e) the Easter and Christmas bonus state contribution for employees under labour suspension; the employment subsidy under "synergasia" programme; the extension of the regular and long-term unemployment benefit, interest rates subsidies for firms that remained closed during the lock down period as well as mortgage loans subsidies to households and small businesses (Gefyra I and II). The public support for 2020 included also leverage provided by the banking system of € 5.7 billion on top of the € 2.6 billion of the Public Investment Budget for cash-collaterals and the co-financing of loans to small and medium size enterprises.

On top of the above, the European Council on 21 July 2020 agreed a recovery package amounting to € 750 billion under the EC's Next Generation EU framework in order to support the recovery and resilience of the member states' economies, out of which ca € 31 billion will be available for Greece, provisionally divided to € 18.2 billion in grants and € 12.7 billion in loans. The respective amount for the Multiannual Financial Framework 2021-2027 (MFF) is at € 1,100 billion, of which ca € 40 billion will be available for Greece. Furthermore the ECB, on 24 March 2020 established a temporary Pandemic Emergency Purchase Programme (PEPP), with a financial envelope of € 1,850 billion as of mid-February 2021, out of which ca € 46 billion will be available for the purchase of Greek public and private sector securities. The PEPP came on top of the ECB liquidity measures of 12 March 2020 (additional Long Term Financing operations, more favourable terms for the Targeted Long Term Operations, new Asset Purchase Programme of € 120 billion).

In such an environment the Greek State managed to achieve continuous market access after the pandemic outbreak from April to December 2020, with the issuance of four bonds of various maturities. On 27 January 2021, the Public Debt Management Agency (PDMA) issued a 10-year bond of € 3.5 billion at a yield of 0.807% and more recently, on 17 March 2021, issued a 30-year bond of € 2.5 billion at a yield of 1.956%.

On 12 March 2020, the ECB announced a number of temporary capital and operational relief measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy. Banks will be allowed to use capital and liquidity buffers and cover Pillar 2 requirements with other than CET 1 instruments until at least the end of 2022. On the same date, the EBA and the ECB decided to postpone the stress test exercises to 2021 to allow banks to focus on and ensure continuity of their core operations, including support for their customers. In addition, the EBA stated that there is flexibility in the implementation of the EBA Guidelines on management of non-performing and forborne exposures and called for a close dialogue between supervisors and banks, also on their non-performing exposure strategies, on a case by case basis (note 5). Furthermore, on 24 June 2020 the Regulation 2020/873 (CRR quick fix) introduced targeted amendments to the Capital Requirements Regulation (CRR) to encourage banks to continue lending during the Covid-19 pandemic.

Regarding the outlook for the next 12 months, the major macroeconomic risks and uncertainties in Greece mainly relate with the outbreak of Covid-19 pandemic and are as follows: (a) the evolution of the health crisis including the probability of the continuation of the pandemic, well after the end of the first half of 2021, and its negative effect on the domestic, regional and / or global economy, (b) the progress on the vaccination programmes to contain effectively the virus expansion, (c) the actual size and duration of the fiscal measures aiming to address the effect of the pandemic on the real economy and their effect on the long-term sustainability of the country's public debt, (d) the pace of the economy's recovery in 2021 and 2022, (e) the absorption capacity of the NGEU and MFF funds and the attraction of new investments in the country, (f) the implementation of the reforms and privatizations' agenda in order to meet the ES targets and milestones, and (g) the geopolitical conditions in the near or in broader region.

Materialization of the above Covid-19 related and other risks would have potentially adverse effects on the fiscal planning of the Greek sovereign and on the liquidity, solvency and profitability of the Greek banking sector, as well as on the realization of their Non Performing Exposures (NPE's) reduction plans. The Group is continuously monitoring the developments on the Covid-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business goals for the quarters ahead, focusing primarily on the support of its clients to overcome the challenging juncture, the mitigation of "cliff effects" post the moratoria expiration, the protection of its asset base and the resilience of its pre-provision profitability. In addition, the Group, under the extraordinary circumstances of the Covid-19 pandemic, has proceeded with the successful implementation of its Business Continuity Plan to ensure that business is continued and critical operations are unimpededly performed. In line with authorities' instructions and recommendations, the Group has taken all the required measures to ensure the health and safety of its employees and customers (e.g. implementation of teleworking, restrictions to business trips, and medical supplies for protective equipment).

Within this challenging external environment, the Group proceeded with the closing of the "Cairo" (sale of 20% of mezzanine/ 50.1% of junior Cairo securitizations' notes) and "Europe" (sale of 80% of Eurobank FPS) transactions in early June 2020, which signalled the completion of its accelerated NPE reduction plan announced in the fourth quarter of 2018. As a result the Group NPEs, following the derecognition of the Cairo securitised loan portfolio of € 7.2 billion (consisting primarily of NPEs) (note 12), were reduced to € 5.7 billion (31 December 2019: € 13 billion) driving the NPE ratio to 14.0% (31 December 2019: 29.2%) and the NPE coverage ratio to 61.9% (31 December 2019: 55.3%). In accordance with the business update for the period 2021-2022, the Group aims to proceed with a new NPE securitization of circa € 3.3 billion. Taking also into account the impact of the Covid 19 pandemic, the NPE ratio is expected to decline further to circa 9% in 2021.

As at 31 December 2020 the Group's Total Adequacy Ratio (total CAD) and Common Equity Tier 1 (CET1) ratios, taking into account the effect of the loss of € 1,508 million on Cairo transaction, the gain (after tax) of € 174 million on FPS disposal and the decrease of the share capital in kind of € 57 million (note 18), stood at 16.3% (31 December 2019: 19.2%) and 13.9% (31 December 2019: 16.7%) respectively. In January 2021, the EBA launched the 2021 EU-wide stress test exercise which will provide valuable input for assessing the resilience of the European banking sector, notably its ability to absorb shocks under adverse macroeconomic conditions, covering the period of 2021-2023. In parallel, the ECB also conducts its own stress test for the banks it directly supervises but that are not included in the EBA-led stress test sample. Eurobank participates in the ECB-led stress test. The results of both exercises will be used to assess each bank's Pillar 2 capital needs in the context of the Supervisory Review and Evaluation Process (SREP). The stress test process is currently in progress and the results are expected by the end of July 2021.

At Group level, the net loss attributable to shareholders for the year ended 31 December 2020, including the loss on Cairo transaction and the gain of FPS disposal mentioned above as well as the € 103 million restructuring costs (after tax), referring mainly to the cost for the new VES launched by the Group in September (note 17), the € 160 million deferred tax assets write-down (note 10) and the € 160 million goodwill impairment, amounted to € 1,213 million (2019: € 127 million profit). The adjusted net profit for the year ended 31 December 2020 amounted to € 544 million (31 December 2019: € 257 million profit). Net loss for the Company equals to €1,512 million (2019: € 31 million profit). During the same period, the Group has increased its deposits by € 2.4 billion to € 47.3 billion (2019: € 44.8 billion) and the funding from the targeted long term refinancing operations of the European Central Bank – TLTRO III programme to € 8 billion (2019: € 1.9 billion). The rise in high quality liquid assets of the Group led the respective Liquidity Coverage ratio (LCR) to 124% (31 December 2019: 97%).

Going concern assessment

The Board of Directors, acknowledging the risks of the Covid-19 outbreak to the economy and the banking system and taking into account the above factors relating to (a) the measures adopted by the Greek and European authorities to mitigate the negative economic impact, (b) the Group's pre-provision income generating capacity and the adequacy of its capital and liquidity position and (c) the completion of the Group's NPE reduction acceleration plan and the new plan for the period 2021-2022, has been satisfied that the financial statements of the Company can be prepared on a going concern basis.

2.1.1 New and amended standards and interpretations

New and amended standards adopted by the Company as of 1 January 2020

The following new standards, amendments to standards and Conceptual Framework as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply as of 1 January 2020:

Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards

In March 2018, the IASB issued its revised "Conceptual Framework for Financial Reporting" (Conceptual Framework). The revised Conceptual Framework is not a standard nor overrides any requirements of individual standards. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced guidance on measurement, presentation and disclosure as well as on derecognition concepts. In addition, the revision includes updated definitions of an asset/liability and of recognition criteria, as well as clarifications on important areas.

Alongside the revised Conceptual Framework, the IASB has published an accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards" which contains consequential amendments to affected standards so that they refer to the revised Framework.

The adoption of the amended Framework had no impact on the financial statements.

Interest Rate Benchmark Reform- Phase 1: Amendments to IFRS 9, IAS 39 and IFRS 7

In September 2019, the IASB issued amendments to IFRS 9 'Financial Instruments', IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" to address the implications for certain hedge accounting requirements related to the uncertainties arising from the market-wide reform of several interest rate benchmarks (referred to as 'IBOR reform'). As a result of the IBOR reform, there may be uncertainties about: a) the interest rate benchmark designated as a hedged risk and/or b) the timing or amount of the benchmark rate-based cash flows of the hedged item or the hedging instrument, during the period before the replacement of an existing interest rate benchmark with an alternative risk-free interest rate ('RFR'). The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 in order to provide temporary reliefs from the potential effect of the uncertainty, during the transition period, which apply to all hedging relationships that are directly affected by the IBOR reform. These reliefs are related mainly to the highly probable requirement for the cash flow hedges, the compliance with the identifiable nature of the hedged risk component and the application of prospective and retrospective effectiveness tests. The amendments to IFRS 7 require additional disclosures in relation to the hedging relationships to which the above reliefs are applied.

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. The first phase, as described above, focuses on hedge accounting issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase, effective from 1 January 2021, focuses on issues that might affect financial reporting once the existing rates are replaced with alternative rates (refer below to section ''new standards, amendments to standards and interpretations not yet adopted by the Company").

The Company has adopted Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7- Phase 1) from 1 January 2020, while the amendments have been applied retrospectively to hedging relationships that existed on that date or were designated thereafter and that are directly affected by the IBOR reform.

As described in note 2.2.3, the Company elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39. Therefore, the amendments to IAS 39 and IFRS 7 are applicable to the Company.

Due to the adoption of the reliefs as of 1 January 2020, the Company assumes that hedging relationships are unaffected by the uncertainties caused by the IBOR reform and they continue to be accounted for as continuing hedges.

Amendments to IFRS 3 Business Combinations

The IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing inputs or processes and add guidance to help entities assess whether an acquired process is substantive. In addition, with the introduction of the amendments the definitions of a business and of outputs are narrowed, while an optional fair value concentration test is introduced.

The adoption of the amendments had no impact on the financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material

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, 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. The amendments clarify that materiality depends on the nature or magnitude of information, or both, while an entity should assess whether information is material on its own or when combined with other information.

The definition of material in the Conceptual Framework was also amended in order to align with the revised definition in IAS 1 and IAS 8.

The adoption of the amendments had no impact on the financial statements.

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

A number of new standards and amendments to existing standards are effective after 2020, as they have not yet been endorsed by the European Union (EU), or have not been early applied by the Company. Those that may be relevant to the Company are set out below:

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2023, not yet endorsed by EU)

The amendments affect only the presentation of liabilities in the balance sheet and provide clarifications over the definition of the right to defer the settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, an entity can ignore only those conversion options that are recognised as equity.

The adoption of the amendments is not expected to impact the financial statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 (effective 1 January 2021)

In August 2020, the IASB issued "Interest Rate Benchmark Reform: Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16", which addresses issues that affect financial reporting once an existing rate is replaced with an alternative rate (RFR) and provides specific disclosure requirements. The Phase 2 Amendments provide key reliefs related to contractual modifications due to the reform and to the hedging relationships affected by the reform.

The adoption of amendments are not expected to impact the financial statements.

Annual improvement to IFRSs 2018-2020 cycle: IFRS1, IFRS9 and IFRS 16 (effective 1 January 2022, not yet endorsed by EU)

The improvements introduce changes to several standards. The amendments that are relevant to the Company's activities are set out below:

The amendments to IFRS 1 *'First-time Adoption of International Financial Reporting Standards'* provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result, the amendments allow entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

The amendment to IFRS 9 '*Financial Instruments'* clarifies which fees should be included in the 10% test for derecognition of financial liabilities. The fees to be included in the assessment are only those paid or received between the borrower (entity) and the lender, including fees paid or received by either the borrower or lender on the other's behalf. The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment to IFRS 16 '*Leases'* removes the illustration of the reimbursement of leasehold improvements, in order to avoid any potential confusion about the treatment of lease incentives.

The adoption of the amendments is not expected to impact the financial statements.

IAS 37, Amendment, Onerous Contracts – Costs of Fulfilling a Contract (effective 1 January 2022, not yet endorsed by EU)

The amendment to IAS 37 *'Provisions, Contingent Liabilities and Contingent Assets'* clarifies that the direct costs of fulfilling a contract include both the incremental costs and an allocation of other costs directly related to fulfilling contracts' activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

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

IFRS 3 - Amendments Reference to the Conceptual Framework (effective 1 January 2022, not yet endorsed by EU)

The amendments to IFRS 3 'Business Combinations' updated the reference to the current version of Conceptual Framework while added a requirement that, for obligations within the scope of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

In addition, the issued amendments added a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition in a business combination at the acquisition date.

The adoption of the amendments is not expected to impact the financial statements.

IAS 8, Amendments, Definition of Accounting Estimates (effective 1 January 2023, not yet endorsed by EU)

The amendments in IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" introduced the definition of accounting estimates and include other amendments to IAS 8 which are intended to help entities distinguish changes in accounting estimates from changes in accounting policies.

The amendments clarify (a) how accounting policies and accounting estimates relate to each other by (i) explaining that accounting estimates are used in applying accounting policies and (ii) making the definition of accounting policies clearer and more concise, (b) that selecting an estimation technique, or valuation technique, used when an item in the financial statements cannot be measured with precision, constitutes making an accounting estimate, and (c) that, in applying IAS 2 Inventories, selecting the first-in, first-out (FIFO) cost formula or the weighted average cost formula for interchangeable inventories constitutes selecting an accounting policy.

The adoption of the amendments is not expected to impact the financial statements.

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (effective 1 January 2023, not yet endorsed by EU)

IASB issued amendments to IAS 1 "Presentation of Financial Statements" to require entities to disclose their material accounting policies rather than their significant accounting policies.

According to IASB, accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

Furthermore, the amendments clarify how an entity can identify material accounting policy information, while provide examples of when accounting policy information is likely to be material. The amendment to IAS 1 also clarify that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment the Board has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2 Making Materiality Judgements to accounting policy disclosures, in order to support the amendments to IAS 1.

The adoption of the amendments is not expected to impact the financial statements.

2.2 Principal accounting policies

2.2.1 Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures, including investments acquired through common control transactions, are accounted at cost less any impairment losses. Cost is the fair value of the consideration given being the amount of cash or shares issued, or if that cannot be determined reliably, the consideration received together with any directly attributable costs.

As an exception to the above measurement basis, when the Company transfers an existing Group entity or business sector to a new subsidiary formed for this purpose in a share for share exchange that does not have commercial substance, the Company's investment in that newly formed subsidiary is recognized at the carrying amount of the transferred entity.

Legal mergers that involve the combination of the Company with one or more of its subsidiaries are accounted for by using the pooling of interest method (also known as merger accounting) pursuant to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" with reference to the most recent pronouncements of other standard-setting bodies that use a similar conceptual framework and comply with the IFRS general principles, as well as accepted industry practices. Under the pooling of interest method, the Company incorporates the acquired assets and liabilities of the merged subsidiary at their carrying amounts in the financial statements as of the date of the legal merger without any fair value adjustments. Any difference between the carrying amount of the investment in the merged subsidiary before the legal merger, and the carrying amount of net assets acquired is recognized in the Company's equity.

Legal mergers that involve the absorption of an entity by the Company, other than an entity under common control, are accounted forby using the purchase method of accounting pursuant to IFRS 3 for business combinations. The consideration transferred for the acquisition is measured at the fair value of the assets given, equity instruments issued or exchanged and liabilities undertaken at the date of acquisition, including the fair value of assets or liabilities resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Under the purchase method of accounting, the identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date. Any previously held interest in the acquiree is remeasured to fair value at the acquisition date with any gain or loss recognized in the income statement.

The excess of the consideration transferred and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets of the entity acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the acquiree, the difference is recognized directly in the income statement. If the initial accounting for the acquisition is incomplete by the end of the reporting period in which it occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period to reflect the new information obtained about the facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date. The measurement period adjustments, as mentioned above, affect accordingly the amount of goodwill that was initially recognized, while the measurement period cannot exceed one year from the acquisition date.

For acquisitions of entities not meeting the definition of a business, the Company allocates the consideration to the individual identifiable assets and liabilities based on their relative fair values at the date of acquisition. Such transactions or events do not give rise to goodwill.

Where necessary, accounting policies of merged subsidiaries or other entities have been changed to ensure consistency with the policies of the Company.

A listing of the Company's subsidiaries is set out in note 14.

2.2.2 Foreign currencies

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 recognized in the income statement.

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

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

2.2.3 Derivative financial instruments and hedging

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

Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The principles for the fair value measurement of financial instruments are described in notes 2.2.13 and 5.2.

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 2.2.10.

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.

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

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

The objectives of hedging with derivative financial instruments include:

- Reduction of interest rate exposure that is in excess of the Company's interest rate limits
- Efficient management of interest rate risk and fair value exposure
- Management of future variable cash flows
- Reduction of foreign currency risk or inflation risk

<u>Hedge accounting</u>

The Company has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39, until the project of accounting of macro hedging activities is completed by the IASB.

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

Specifically, the Company designates certain derivatives as: (a) hedges of the exposure to changes in fair value of recognized assets or liabilities or unrecognized firm commitments (fair value hedge) and (b) hedges of the exposure to variability in cash flows of recognized assets or liabilities or highly probable forecasted transactions (cash flow hedge).

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

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

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

As described in note 2.1.1, the Company has applied IBOR reform amendments to IFRS 9, IAS 39 and IFRS 7, issued in September 2019, that provide temporary reliefs on hedging relationships due to the potential effect of the uncertainty on the amount and timing of cash flows indexed to IBOR and/or the interest benchmark designated as a hedged risk, during the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate.

(i) Fair value hedge

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

The items that qualify for fair value hedge accounting include fixed rate debt securities classified as FVOCI and amortized cost financial assets, fixed rate term deposits or term loans measured at amortized cost, as well as fixed rate debt securities in issue.

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

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with the changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

The Company discontinues hedge accounting in case the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the qualifying criteria for hedge accounting, or designation is revoked. In such cases, any adjustment to the carrying amount of the hedged item, for which the effective interest method is applied, is amortized to profit or loss over the period to maturity. Hedge ineffectiveness may arise in case of potential differences in the critical terms between the hedged item and the hedging instrument such as maturity, interest rate reset frequency and discount curves.

(ii) Cash flow hedge

The Company applies cash flow hedging to hedge exposures to variability in cash flows primarily attributable to the interest rate risk and currency risk associated with a recognized asset or liability or a highly probable forecast transaction.

The items that qualify for cash flow hedging include recognized assets and liabilities such as variable rate deposits or loans measured at amortized cost, variable rate debt securities in issue and foreign currency variable rate loans. The interest rate risk with respect to the applicable benchmark rate may be hedged using interest rate swaps and cross currency swaps. The foreign currency risk may be hedged using currency forwards and currency swaps.

Furthermore, cash flow hedging is used for hedging highly probable forecast transactions such as the anticipated future rollover of short-term deposits or repos measured at amortized cost. Specifically, the forecast variable interest payments of a series of anticipated rollovers of these financial liabilities are aggregated and hedged as a group with respect to changes in the benchmark interest rates, eliminating cash flow variability. In addition, cash flow hedging applies to hedges of currency risk arising from probable forecasted sales of financial assets or settlement of financial liabilities in foreign currency.

If the hedged item is documented as a forecast transaction, the Company assesses and verifies that there is a high probability of the transaction occurring.

In order to assess the effectiveness of cash flow hedges of interest rate risk, the Company uses regression analysis which demonstrates that there is high historical and expected future correlation between the interest rate risk designated as being hedged and the interest rate risk of the hedging instrument. For assessing the effectiveness of cash flow hedges of currency risk, the Company uses the dollar-offset method.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income whereas the ineffective portion is recognized in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction affects the income statement.

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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

Changes in the fair value of derivative financial instruments that are not designated as hedging instruments or do not qualify for hedge accounting are recognized in the income statement.

2.2.4 Offsetting financial instruments

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

2.2.5 Income statement

(i) Interest income and expense

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

The 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.

For financial assets that were credit-impaired on initial recognition (POCI) interest income is calculated by applying the credit-adjusted EIR (calculated as described above) to the POCI asset's amortized cost. For such assets even if the credit risk improves, interest income does not revert to gross basis calculation. For inflation-linked instruments the Company recognizes interest income and expense by adjusting the effective interest rate on each reporting period due to changes in expected future cash flows, incorporating changes in inflation expectations over the term of the instruments. The adjusted effective interest rate is applied in order to calculate the new gross carrying amount on each reporting period.

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

(ii) Fees and commissions

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

Other fee and commission income such as account servicing and asset management fees (including performance based fees) is recognised over time as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, charges and brokerage activities are recognised at the point in time when the transaction takes place. Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

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

2.2.6 Property, equipment and Investment property

(i) Property and equipment

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

Depreciation is calculated using the straight-line method to write down the cost of property and equipment, to their residual values over their estimated useful life as follows:

- Land: no depreciation;
- Freehold buildings: 40-50 years;
- Leasehold improvements: over the lease term or the useful life of the asset if shorter;
- Computer hardware and related integral software: 4-10 years;
- Other furniture and equipment: 4-20 years; and
- Motor vehicles: 5-7 years.

(ii) Investment property

Property held for rental yields and/or capital appreciation that is not occupied by the Company's entities is classified as investment property.

Investment property is measured initially at its cost, including related transaction costs. Under fair value model of IAS 40 "Investment property" after initial recognition, investment property is carried at fair value as determined by independent certified valuers, with any change therein recognized in income statement. Investment property under construction is measured at fair value only if it can be measured reliably.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance costs are recognized to the income statement during the financial period in which they are incurred.

Investment property is derecognised when disposed or when it is permanently withdrawn from use and there is no future economic benefit expected from its disposal. Any arising gain or loss (calculated as the difference between the net proceeds from disposal and the carrying amount of the asset) is recognized in income statement.

If an investment property becomes owner-occupied, it is reclassified as property and equipment and its fair value at the date of reclassification becomes its deemed cost. If an item of property and equipment becomes an investment property because its use has changed, any resulting decrease between the carrying amount and the fair value of this item at the date of transfer is recognized in income statement while any resulting increase, to the extent that the increase reverses previous impairment loss for that property, is recognized in income statement while any remaining part of the increase is recognized in other comprehensive income and increases the revaluation surplus within equity.

If a repossessed asset becomes investment property, any difference between the fair value of the property at the date of transfer and its previous carrying amount is recognized in income statement.

Reclassifications among own used, repossessed assets and investment properties may occur when there is a change in the use of such properties. Additionally, an investment property may be reclassified to 'non-current assets held for sale' category to the extent that the criteria described in note 2.2.25 are met.

2.2.7 Intangible assets

(i) Goodwill

Goodwill arising on legal mergers that involve the absorption of an entity by the Company, other than an entity under common control, represents the excess of the aggregate of the fair value of the consideration transferred and the acquisition date fair value of any previously held equity interest in the acquiree over the fair value of the Company's share of net identifiable assets and contingent liabilities acquired. Goodwill arising is included in 'intangible assets' and is measured at cost less accumulated impairment losses.

(ii) Computer software

Costs associated with the maintenance of existing computer software programs are expensed as incurred. Development costs associated with the production of identifiable assets controlled by the Company are recognized as intangible assets when they are expected to generate economic benefits and can be measured reliably. Internally generated computer software assets are amortized using the straight-line method over 4 years, except for core systems whose useful life may extend up to 20 years.

(iii) Other intangible assets

Other intangible assets are assets that are separable or arise from contractual or other legal rights and are amortized over their estimated useful lives. These include intangible assets acquired in business combinations.

Intangible assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

2.2.8 Impairment of subsidiaries, associates and joint ventures

The Company assesses as at each reporting balance sheet date whether there is any indication that its investments in subsidiaries, associates and joint ventures may be impaired by considering both external and internal sources of information, such as the net assets compared to the carrying value of each entity, as well as forward looking developments and/or economy sector in which they operate. In addition, the collection of dividends from subsidiaries, associates and joint ventures is also a potential trigger for impairment may indicate that the respective investments are impaired.

If any such indication of impairment exists at each reporting date, the Company estimates the recoverable amount of the investment, being the higher of its fair value less costs to sell and its value in use.

An impairment loss is recognized in profit or loss when the recoverable amount of the investment is less than its carrying amount.

Investments in subsidiaries, associates and joint ventures, for which an impairment loss was recognized in prior reporting periods, are reviewed for possible reversal of such impairment at each reporting date.

2.2.9 Impairment of non-financial assets

(i) Goodwill

Goodwill arising on legal mergers that involve the absorption of an entity by the Company, other than an entity under common control, is not amortized but tested for impairment annually or more frequently if there are any indications that impairment may have occurred. The Company's impairment test is performed each year end. The Company considers external information such as prevailing economic conditions, persistent slowdown in financial markets, volatility in markets and changes in levels of market and exchange risk, an unexpected decline in an asset's market value or market capitalization being below the book value of equity, together with a deterioration in internal performance indicators, in assessing whether there is any indication of impairment.

For the purpose of impairment testing, goodwill acquired is allocated to each Cash Generating Unit (CGU) or groups of CGUs that are expected to benefit from the synergies of the merger. Each unit or group of units to which the goodwill is allocated represents the lowest level within the Company at which goodwill is monitored for internal management purposes. The Company monitors goodwill either at the separate CGU or group of CGUs consistent with the internal monitoring of operating segments.

The Company impairment model compares the carrying value of a CGU or group of CGUs with its recoverable amount. The carrying value of a CGU is based on the assets and liabilities of each CGU. The recoverable amount is determined on the basis of the value-in-use which is the present value of the future cash flows expected to be derived from the CGU or group of CGUs. The estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU and the countries where the CGUs operate.

An impairment loss arises if the carrying amount of an asset or CGU exceeds its recoverable amount, and is recognized in the income statement. Impairment losses are not subsequently reversed. Gains and losses on the disposal of an operation within that CGU include the carrying amount of goodwill relating to the operation disposed of.

(ii) Other non-financial assets

Other non-financial assets, including property and equipment and other intangible assets, are assessed for indications of impairment at each reporting date by considering both external and internal sources of information such as a significant reduction in the asset's value and evidence that the economic performance of the asset is or will be worse than expected. When events or changes in circumstances indicate that the carrying amount may not be recoverable, an impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows, where applicable. Non-financial assets, other than goodwill, for which an impairment loss was recognized in prior reporting periods, are reviewed for possible reversal of such impairment at each reporting date.

2.2.10 Financial assets

Financial assets - Classification and measurement

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

Purchases and sales of financial assets are recognized on trade date, which is the date the Company commits to purchase or sell the assets. Loans originated by the Company are recognized when cash is advanced to the borrowers.

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 and is not designated as at FVTPL:

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

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

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 (as described in 2.2.5 above).

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

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

The Company classifies and measures a financial asset at FVOCI only if both of the following conditions are met and is not designated as at FVTPL:

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

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

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

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

Equity Instruments designated at FVOCI

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

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

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

Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the 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's key management personnel 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, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Types of business models

The Company's business models fall into three categories, which are indicative of the key strategies used to generate returns.
The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model. Debt instruments classified within this business model include bonds, due from banks and loans and advances to customers including securitized notes issued by special purpose vehicles established by the Company and recognized in its balance sheet, which are measured at amortized cost, subject to meeting the SPPI assessment criteria.
The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

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

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

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 financial 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. Moreover, for the securitized notes issued by special purpose vehicles and held by the Company, the cash flow characteristics of the underlying pool of financial assets as well as the credit risk inherent in each securitization's tranche compared to the credit risk of all of the underlying pool of financial assets, are considered.

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

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

In particular, the Company assesses the contractual cash flows of the "real instrument", whose interest rate is reset with a frequency that does not match the tenor of the interest rate, and those of the "benchmark instrument", which are identical in all respects except that the tenor of the interest rate matches exactly the interest period. If the undiscounted cash flows of the former are significantly different from the benchmark cash flows due to the modified time value of money element, the financial asset does not meet the SPPI criterion. In its assessment, the Company considers both the effect of the modified time value of money element in each reporting period and cumulatively over the life of the instrument. This is done, as far as the lifetime of the instrument is concerned, by comparing the cumulative projected undiscounted cash flows of the real and the benchmark instrument, and for each quarterly reporting period, by comparing the projected undiscounted cash flows of the two instruments for that quarterly reporting period, based on predefined thresholds.

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

The Company performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio, securitized notes issued by special purpose vehicles established by the Company and debt securities the assessment is performed 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 transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

The main transactions that are subject to the above de-recognition rules are securitization transactions, repurchase agreements and stock lending transactions. In the case of securitization transactions, in order to assess the application of the above mentioned de-recognition principles, the Company considers the structure of each securitization transaction including its exposure to the more subordinated tranches of the notes issued and/or credit enhancements provided to the special purposes vehicles, as well as the securitization's contractual terms that may indicate that the Company retains control of the underlying assets. In the case of repurchase transactions and stock lending, the assets transferred are not derecognised since the terms of the transaction entail the retention of all their risks and rewards.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in OCI for financial assets at FVOCI, is recognized in income statement, except for cumulative gains or losses of FVOCI equity instruments which are not reclassified from OCI to income statement at the date of derecognition.

Modification of financial assets that may result in derecognition

In addition, derecognition of financial asset arises when its contractual cash flows are modified and the modification is considered substantial enough so that the original asset is derecognized and a new one is recognised. The Company records the modified asset as a 'new' financial asset at fair value and the difference with the carrying amount of the existing one is recorded in the income statement as derecognition gain or loss.

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

Modifications that may result in derecognition include:

- change in borrower,
- change in the currency that the lending exposure is denominated,
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement,
- the removal or addition of conversion features and/or profit sharing mechanisms and similar terms which are relevant to the SPPI assessment;

In addition, the Company may occasionally enter, in the context of loans' modifications, into debt-for-equity transactions. These are transactions where the terms of a lending exposure are renegotiated and as a result, the borrower issues equity instruments (voting or no voting) in order to extinguish part or all of its financial liability to the Company. Such transactions may include also exercise of conversion rights embedded into convertible or exchangeable bonds and enforcement of shares held as collateral.

In debt-for-equity transactions, the modified loan is derecognized while the equity instruments received in exchange are recognized at their fair value, with any resulting gain or loss recognized in the Company's income statement.

2.2.11 Reclassifications of financial assets

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

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

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

2.2.12 Financial liabilities

Financial liabilities - Classification and measurement

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

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

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

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

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

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

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in the income statement.

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 recognized 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 amortized 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.

2.2.13 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 other valuation techniques that maximize the use of relevant observable inputs and minimize 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 recognized in the income statement. 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 amortized 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 categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

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

2.2.14 Impairment of financial assets

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, including loans, securitized notes issued by special purpose vehicles established by the Company, lease receivables, debt securities, financial guarantee contracts, and loan commitments. No ECL are recognized on equity investments. ECL are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Company records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. 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.

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

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

- Stage 1 – When there is no significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-months ECL is recorded. The 12 – month ECL represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months. Not credit-impaired financial assets that are either newly originated or purchased, as well as, assets recognized following a substantial modification accounted for as a derecognition, are classified initially in Stage 1.
- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. Lifetime ECL represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.
- POCI - Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. They are not subject to stage allocation and are always measured on the basis of lifetime expected credit losses. Accordingly, ECL are only recognized to the extent that there is a subsequent change in the assets' lifetime expected credit losses. Any subsequent favorable change to their expected cash flows is recognized as impairment gain in the income statement even if the resulting expected cash flows exceed the estimated cash flows at initial recognition. Apart from purchased assets, POCI assets may also include financial instruments that are considered new assets, following a substantial modification accounted for as a derecognition (see note 2.2.10).

Definition of default

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

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

- The borrower faces a significant difficulty in meeting his financial obligations.
- 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 POCI financial assets, a purchase or origination at a deep discount that reflects incurred credit losses is considered a detrimental event. The Company assesses the deep discount criterion following a principle -based approach with the aim to incorporate all reasonable and supportable information which reflects market conditions that exist at the time of the assessment.

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

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, issued loan commitments and financial guarantee contracts, since initial recognition.

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

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

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

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

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

Internal credit risk rating (on a borrower basis) is also used as a basis for the identification of SICR with regards to lending exposures of the Wholesale portfolio. Specifically, the Company takes into consideration the changes of internal ratings by a certain number of notches. In addition, a watchlist status is also considered by the Company as a trigger for SICR identification. Internal credit risk ratings models include borrower specific information as well as, forward-looking information including macroeconomic variables.

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

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

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

Transfers from Stage 2 to Stage 1

A financial asset, which is classified to Stage 2 due to 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.

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

Transfers from Stage 3 to Stage 2

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

Criteria for grouping of exposures based on shared credit risk characteristics

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

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

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

The Company identifies individually significant exposures and performs the ECL measurement based on borrower specific information for both retail and wholesale portfolios. This measurement is performed at a borrower level, hence the criteria are defined at this level, while both qualitative and quantitative factors are taken into consideration including forward looking information.

For the remaining retail and wholesale exposures, ECL are measured on a collective basis. This incorporates borrower specific information, collective historical experience of losses and forward-looking information. For debt securities and securitized notes issued by special purpose entities established by the Company, the measurement of impairment losses is performed on an individual basis.

Measurement of Expected Credit Losses

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

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

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

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

ECL Key Inputs

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

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

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

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

Two types of PD are used for calculating ECL:

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

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

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

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

In addition, the prepayment rate is an estimate of early prepayments on loan exposure in excess of the contractual repayment according to the repayment schedule and is expressed as a percentage applied to the EAD at each period, reducing the latter amount accordingly.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure and it is the difference between the contractual cash flows due and those that the Company expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. The Company distinguishes its loan portfolios into two broad categories i.e. secured and unsecured. The Company estimates the LGD component using cure rates that reflect cash recoveries, estimated proceeds from collateral liquidation, estimates for timing realization, realization costs, etc. Where the LGD's component values are dependent on macro – economic data, such types of dependencies are reflected by incorporating forward looking information, such as forecasted price indices into the respective models. The estimation of the aforementioned component values within LGD reflects available historical data which cover a reasonable period, i.e. a full economic cycle.

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

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

Forward-looking information

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

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

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

The Company then proceeds to the calculation of weights for each scenario, which represent the probability of occurrence for each of these scenarios. These weights are applied on the 3 sets of calculations of the parameters in order to produce a single scenario weighted risk parameter value which is subsequently used in both SICR assessment and ECL measurement. ECL calculation incorporates forward-looking macroeconomic variables, including GDP growth rates, house price indices, unemployment rates, interest rates, etc. In order to capture material non – linearities in the ECL model, in the case of individually significant exposures, the Company considers the relevance of forward looking information to each specific group of borrowers primarily on the basis of the business sector they belong and other drivers of credit risk (if any). As such, different scenario weights are determined per groups of borrowers with the objective of achieving an unbiased ECL amount which incorporates all relevant and supportable information.

Modified Financial Assets

In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial enough (for the triggers of derecognition, refer to Derecognition of Financial assets in section 2.2.10 above), the modification date is considered to be the date of initial recognition for impairment calculation purposes, including for the purposes of determining whether a significant increase in credit risk has occurred. Such a modified asset is typically classified as Stage 1 for ECL measurement purposes. However, in some circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the new financial asset is credit-impaired at initial recognition, and thus, the financial asset is recognized as an originated credit-impaired financial asset (POCI).

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

Presentation of 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. For off-balance sheet financial items arising from lending activities, impairment allowance is presented in Other Liabilities. The respective ECL for the above financial items is recognised within impairment losses.

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.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

2.2.15 Sale and repurchase agreements and securities lending

(i) Sale and repurchase agreements

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

(ii) Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

2.2.16 Leases

(i) Accounting for leases as lessee

When the Company becomes the lessee in a lease arrangement, it recognizes a lease liability and a corresponding right-of-use (RoU) asset at the commencement of the lease term when the Company acquires control of the physical use of the asset.

Lease liabilities are presented within Other liabilities and RoU assets within Property and equipment and investment property. Lease liabilities are measured based on the present value of the future lease payments over the lease term, discounted using an incremental borrowing rate. The interest expense on lease liabilities is presented within net interest income.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the Company’s estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The RoU asset is initially recorded at an amount equal to the lease liability and is adjusted for rent prepayments, initial direct costs, or lease incentives received. Subsequently, the RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within operating expenses.

When a lease contains extension or termination options that the Company considers reasonably certain to be exercised, the expected future lease payments or costs of early termination are included within the lease payments used to calculate the lease liability.

(ii) Accounting for leases as lessor

At inception date of the lease, the Company, acting as a lessor, classifies each of its leases as either an operating lease or a finance lease based on certain criteria.

Finance leases

At commencement date, the Company derecognizes the carrying amount of the underlying assets held under finance lease, recognizes a receivable at an amount equal to the net investment in the lease and recognizes, in income statement, any profit or loss from the derecognition of the asset and the recognition of the net investment. The net investment in the lease is calculated as the present value of the future lease payments in the same way as for the lessee.

After commencement date, the Company recognizes finance income over the lease term, based on a pattern reflecting a constant periodic rate of return on the lessor’s net investment in the lease. The Company also recognizes income from variable payments that are not included in the net investment in the lease. After lease commencement, the net investment in a lease is not remeasured unless the lease is modified or the lease term is revised.

Operating leases

The Company continues to recognize the underlying asset and does not recognize a net investment in the lease on the balance sheet or initial profit (if any) on the income statement.

The Company recognizes lease payments from the lessees as income on a straight-line basis or another systematic basis considered as appropriate. Also it recognizes costs, including depreciation, incurred in earning the lease income as an expense. The Company adds initial direct costs incurred in obtaining an operating lease to the carrying amount of the underlying asset and recognizes those costs as an expense over the lease term on the same basis as the lease income.

Subleases

The Company, acting as a lessee, may enter into arrangements to sublease a leased asset to a third party while the original lease contract is in effect. The Company acts as both the lessee and lessor of the same underlying asset. The sublease is a separate lease agreement, in which the intermediate lessor classifies the sublease as a finance lease or an operating lease as follows:

- if the head lease is a short-term lease, the sublease is classified as an operating lease; or
- otherwise, the sublease is classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the underlying asset.

2.2.17 Income tax

Income tax consists of current and deferred tax.

(i) Current income tax

Income tax payable on profits, based on the applicable tax law, is recognized as an expense in the period in which profits arise.

(ii) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. The Company recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

The deferred tax asset on income tax losses carried forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

(iii) Uncertain tax positions

The Company determines and assesses all material tax positions taken, including all, if any, significant uncertain positions, in all tax years that are still subject to assessment (or when the litigation is in progress) by relevant tax authorities. In evaluating tax positions, the Company examines all supporting evidence (Ministry of Finance circulars, individual rulings, case law, past administrative practices, ad hoc tax/legal opinions etc.) to the extent they are applicable to the facts and circumstances of the particular Company’s case/ transaction.

In addition, judgments concerning the recognition of a provision against the possibility of losing some of the tax positions are highly dependent on advice received from internal/ external legal counselors. For uncertain tax positions with a high level of uncertainty, the Company recognizes, on a transaction by transaction basis, or together as a group, depending on which approach better predicts the resolution of the uncertainty using an expected value (probability-weighted average) approach: (a) a provision against tax receivable which has been booked for the amount of income tax already paid but further pursued in courts or (b) a liability for the amount which is expected to be paid to the tax authorities. The Company presents in its balance sheet all uncertain tax balances as current or deferred tax assets or liabilities.

The Company as a general rule has opted to obtain an ‘Annual Tax Certificate’, which is issued after a tax audit is performed by the same statutory auditor or audit firm that audits the annual financial statements. Further information in respect of the Annual Tax Certificate and the related tax legislation, is provided in note 10.

2.2.18 Employee benefits

(i) Short term benefits

Short term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and are expensed as these services are provided.

(ii) Pension obligations

The Company provides a number of defined contribution pension plans where annual contributions are invested and allocated to specific asset categories. Eligible employees are entitled to the overall performance of the investment. The Company's contributions are recognized as employee benefit expense in the year in which they are paid.

(iii) Standard legal staff retirement indemnity obligations (SLSRI) and termination benefits

The Company operates unfunded defined benefit plans, under the regulatory framework. In accordance with the local labor legislation, the Company provides for staff retirement indemnity obligation for employees which are entitled to a lump sum payment based on the number of years of service and the level of remuneration at the date of retirement, if they remain in the employment of the Company until normal retirement age. Provision has been made for the actuarial value of the lump sum payable on retirement (SLSRI) using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The SLSRI obligation is calculated as the present value of the estimated future cash outflows using interest rates of high quality corporate bonds. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations. Actuarial gains and losses that arise in calculating the Company’s SLSRI obligations are recognized directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Interest on the staff retirement indemnity obligations and service cost, consisting of current service cost, past service cost and gains or losses on settlement are recognized in the income statement. In calculating the SLSRI obligation, the Company also considers potential separations before normal retirement based on the terms of previous voluntary exit schemes.

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits (including those in the context of the Voluntary Exit Schemes implemented by the Company). The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognizes costs for a restructuring that involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Termination benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(iv) Performance-based cash payments

The Company's Management awards high performing employees with bonuses in cash, from time to time, on a discretionary basis. Cash payments requiring only Management approval are recognized as employee benefit expenses on an accrual basis. Cash payments requiring General Meeting approval as distribution of profits to staff are recognized as employee benefit expense in the accounting period that they are approved by the Company’s shareholders.

(v) Performance-based share-based payments

The Company’s Management awards employees with bonuses in the form of shares and share options on a discretionary basis. Non-performance related shares vest in the period granted. Share based payments that are contingent upon the achievement of a performance and service condition, vest only if both conditions are satisfied.

The fair value of the shares granted is recognized as an employee benefit expense with a corresponding increase in share capital (par value) and share premium.

The fair value of the options granted is recognized as an employee benefit expense with a corresponding increase in a non-distributable reserve over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (par value) and share premium when the options are exercised, with a transfer of the non distributable reserve to share premium.

2.2.19 Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in 'Other Assets'. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.

In cases where the Company makes use of repossessed properties as part of its operations, they may be reclassified to own occupied or investment properties, as appropriate.

Any gains or losses on liquidation are included in the income statement.

2.2.20 Related party transactions

Related parties of the Company include:

(a) an entity that has control over the Company and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members;

(b) an entity that has significant influence over the Company and entities controlled by this entity,

(c) members of key management personnel of the Company, their close family members and entities controlled or jointly controlled by the abovementioned persons;

(d) associates and joint ventures of the Company; and

(e) subsidiaries.

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

2.2.21 Provisions

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

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

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

2.2.22 Share capital

Ordinary shares and preference 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 recognized as a deduction in the Company's equity when approved by the General Meeting of shareholders. Interim dividends are recognized as a deduction in the Company's equity when approved by the Board of Directors.

Where the Company purchases own shares (treasury shares), the consideration paid including any directly attributable incremental costs (net of income taxes), is deducted from shareholders' equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.2.23 Hybrid capital

Hybrid capital issued by the Company, through its special purpose entity, is classified as equity when there is no contractual obligation to deliver to the holder cash or another financial asset. Incremental costs directly attributable to the issue of new hybrid capital are shown in equity as a deduction from the proceeds, net of tax.

Dividend distribution on hybrid capital is recognized as a deduction in the Company's equity on the date it is due.

Where hybrid capital, issued by the Company, is repurchased, the consideration paid including any directly attributable incremental costs (net of income taxes), is deducted from shareholders' equity. Where such securities are subsequently called or sold, any consideration received is included in shareholders' equity.

2.2.24 Financial guarantees and commitments to extend credit

Financial guarantees

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

Financial guarantees are initially recognized at fair value, being the premium received. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the ECL allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Commitments to extend credit

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

ECL allowance for off-balance sheet exposures (financial guarantees and commitments) is included within Other Liabilities.

2.2.25 Non-current assets classified as held for sale and discontinued operations

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. For a non- current asset to be classified as held for sale, it is available for immediate sale in its present condition, subject to terms that are usual and customary for sales of such assets, and the sale is considered to be highly probable. In such cases, management is committed to the sale and actively markets the property for sale at a price that is reasonable in relation to the current fair value. The sale is also expected to qualify for recognition as a completed sale within one year from the date of classification. Before their classification as held for sale, assets are remeasured in accordance with the respective accounting standard.

Assets held for sale are subsequently remeasured at the lower of their carrying amount and fair value less cost to sell. Any loss arising from the above measurement is recorded in profit or loss and can be reversed in the future. When the loss relates to a disposal group, it is allocated to the assets within that disposal group.

The Company presents discontinued operations in a separate line in the income statement if a component of the Company's operations has been disposed of or is classified as held for sale and:

(a) Represents a separate major line of business or geographical area of operations;
(b) Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;
Profit or loss from discontinued operations includes the profit or loss before tax from discontinued operations, the gain or loss on disposal before tax or measurement to fair value less costs to sell and discontinued operations tax expense. Upon classification of a component of the Company's operations as a discontinued operation, the Company restates prior periods in the income statement.

2.2.26 Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted deposits with central banks, due from credit institutions and other short-term highly liquid investments with original maturities of three months or less.

2.2.27 Government grants

Government grants are transfers of resources to the Company by a government entity such as government, government agencies and similar bodies whether local, national or international, in return for compliance with certain past of future conditions related to the Company's operating activities.

Government grants are recognized when there is reasonable assurance that the grant will be received and the Company will comply with the conditions attached to it. The grants are recognized in the income statement on a systematic basis to match the way that the Company recognizes the expenses for which the grants are intended to compensate. In case of subsequent changes in the Company's expectations of meeting the conditions attached to the government grants, the effect of such changes is recognised in income statement.

2.2.28 Fiduciary activities

The Company provides custody, trustee, corporate administration, investment management and advisory services to third parties. This involves the Company making allocation, purchase and sale decisions in relation to a wide range of financial instruments. The Company receives fee income for providing these services. Those assets that are held in a fiduciary capacity are not assets of the Company and are not recognized in the financial statements. In addition, the Company does not guarantee these investments and as a result it is not exposed to any credit risk in relation to them.

3. Critical accounting estimates and judgments in applying accounting policies

In the process of applying the Company's accounting policies, the Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities, revenues and expenses recognized in the financial statements within the next financial year and the accompanying disclosures. Estimates and judgments are continually evaluated and are 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.

Following the completion of the banking sector's hive down on 20 March 2020 (notes 1 and 4) and the subsequent amendment of the corporate name of Eurobank Ergasias S.A. to Eurobank Ergasias Services and Holdings, the significant estimates, judgments and assumptions made by Management in applying the Company's accounting policies and key sources of estimation uncertainty for the period 1 January to 20 March 2020 (i.e. date of hive down) are consistent with those in the financial statements of Eurobank Ergasias S.A. for the year ended 31 December 2019.

Following the hive down date, the most significant areas in which the Company makes judgments, estimates and assumptions in applying its accounting policies are set out below:

3.1 Impairment losses on investment securities

The expected credit losses (ECL) measurement of the Tier 2 subordinated instrument requires management to apply judgement relating to the risk parameters used in the calculation of the ECL and in assessing whether a significant increase of credit risk (SICR) has occurred since initial recognition. These estimates are based on quantitative and qualitative information reasonable and supportable forward looking information. A degree of uncertainty is involved in making estimations using assumptions that may be subjective and sensitive to the risk factors.

Specifically, the assessment of SICR is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date while the PD used for the ECL measurement is received by an international rating agency using risk methodologies that maximize the use of observable variables and market data. Furthermore, the LGD used is based on historical data derived from rating agencies' studies that present the recoveries on such instruments taking into account the seniority of the exposure.

Changes in the metrics applied and the assumptions underlined would have a significant effect on the ECL outcome. The Company independently validates all ECL key inputs and underlying assumptions used in the ECL measurement through competent resources.

3.2 Impairment losses on investment in subsidiaries

The Company assesses for impairment its investment in subsidiaries at each reporting date as described in note 2.2.8. If an indication of impairment exists, the Company performs an impairment test by comparing the carrying value of the investment in the subsidiary with its estimated recoverable amount, determined as the higher of its fair value less cost to sell and its value in use, based on reasonable and supportable information. The calculation of the recoverable amount involves the exercise of judgement in selecting the appropriate parameters, such as the applicable discount and growth rates.

3.3 Impairment losses on loans and advances to customers

The expected credit losses (ECL) measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized. The ECL's calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. In addition, temporary adjustments may be required to capture new developments and information available, which are not reflected yet in the ECL calculation through the risk models.

Although, the ECL calculation methodology regarding the application of macroeconomic scenarios and the incorporation of forward looking information remained unchanged compared to 31 December 2019, the Company revised the forward-looking information incorporated in the above scenarios, in order to capture the negative impact of the Covid-19 pandemic, based on its best estimate regarding such economic forecasts in the first quarter of 2020. In addition, Management applied the appropriate level of judgement regarding its expectations for the severity and the duration of the economy's negative outlook, in line with the International Accounting Standards Board (IASB), the European Central Bank (ECB) and other banking regulators' statements, which emphasize the need for overlays where the risk models do not capture the specific circumstances.

In March 2020, upon the completion of the hive down process, the impairment allowance corresponding to the loans and advances to customer of the banking sector was transferred, inter alia, to Eurobank S.A. (note 4). With regards to the remaining loan portfolio of the Company which comprised the Cairo securitized loans, the completion of the transaction with doValue for the sale of 20% of the mezzanine and 50,1% of the junior notes of Cairo securitization, in June 2020, resulted in the re-measurement of the above portfolio's expected credit losses, in accordance with the Company's relevant accounting policy and by reference to the fair value of the notes retained by the Company, and eventually its de-recognition from the Company's balance sheet (notes 4 and 11).

3.4 Income tax

The Company is subject to income taxes in various jurisdictions and estimates are required in determining the liability for income taxes. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due or for anticipated tax disputes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax in the period in which such determination is made.

In addition, the Company recognizes deferred tax assets to the extent that it is probable that sufficient taxable profit will be available against which unused tax losses and deductible temporary differences can be utilized. Recognition therefore involves judgment regarding the future financial performance of the Company. As at 31 December 2020, based on the Management's assessment the Company is not expected to have sufficient future taxable profits, against which the unused tax losses mainly resulting from the Cairo transaction can be utilized (note 10).

3.5 Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions, such as the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate used to calculate the present value of the estimated retirement obligations, at the end of each year based on interest rates of high quality corporate bonds. The currency and term to maturity of the bonds used are consistent with the currency and estimated average term to maturity of the retirement benefit obligations. The salary rate increase assumption is based on future inflation estimates reflecting also the Company's reward structure and expected market conditions.

Other assumptions for pension obligations, such as future inflation estimates, are based in part on current and expected market conditions.

For information in respect of the Company's retirement benefit obligations refer to note 17.

4. Corporate Transformation-Hive down

In November 2018, Eurobank Ergasias announced its transformation plan aiming to enable the former to deal with the challenging non-performing loans (NPEs) reduction targets, achieve a significant balance sheet de-risking and focus on the core banking business. The aforementioned transformation plan included the merger with Grivalia, which was completed in April 2019, and the NPEs reduction Acceleration Plan comprising the steps described below:

a) In June 2019, Eurobank Ergasias, through the special purpose financing vehicle (SPV) 'Pillar Finance Designated Activity Company' issued senior, mezzanine and junior notes of total value of ca. € 2 billion, via a securitization of NPEs, which were fully retained by the entity. In September 2019, Eurobank Ergasias sold the 95% of the above-mentioned mezzanine and junior notes to Celidoria S.A R.L. Upon the completion of the above sale, Eurobank Ergasias ceased to control the SPV and derecognized the underlying loan portfolio in its entirety, on the basis that it transferred substantially all the risks and rewards of the underlying loan portfolio's ownership. In addition, Eurobank Ergasias recognized the retained notes, i.e. 100% of the senior, 5% of the mezzanine and junior notes, on its balance sheet (notes 12 and 16).

b) In June 2019, Eurobank Ergasias, through the special purpose financing vehicles (SPVs) 'Cairo No. 1 Finance Designated Activity Company', 'Cairo No. 2 Finance Designated Activity Company' and 'Cairo No. 3 Finance Designated Activity Company', issued senior (Class A), mezzanine (Class B1 and B2) and junior (Class C1 and C2) notes of total value of ca. € 7.5 billion, via a securitization of a mixed portfolio consisting primarily of NPEs, which were fully retained by the entity. The control of the SPVs resides with the majority holder of Class B1. Accordingly, Eurobank Ergasias being the sole holder of the issued notes, controlled the SPVs and continued recognizing the underlying loan portfolio on its balance sheet on the basis that it retained substantially all risks and rewards of its ownership (note 16).

c) On 20 March 2020, the demerger of Eurobank Ergasias S.A. through the hive down of the banking sector and the establishment of a new company-credit institution under the corporate name 'Eurobank S.A.' was completed (as detailed in Hive Down section below). At the aforementioned date, Eurobank S.A. assumed, inter alia, 100% of the senior, 5% of the mezzanine and junior notes of the Cairo securitization. The rest of the Cairo notes, i.e. 95% of the mezzanine and junior notes, remained with Eurobank Holdings.

On 23 March 2020, the distinctive title of Eurobank Ergasias S.A. was amended to Eurobank Holdings.

Accordingly, following the hive down, the ownership distribution of Cairo notes is depicted below:

Cairo noteholders post hive down

Cairo notes	(A) - Eurobank S.A.	(B) - Eurobank Holdings	(C) = (A) + (B) - Eurobank Holdings Group/ Total Issue
A Senior	**100%**	**0%**	**100%**
B1 Mezzanine	5%	20%	25%
B2 Mezzanine	-	75%	75%
B Total	**5%**	**95%**	**100%**
C1 Junior	5%	50.1%	55.1%
C2 Junior	-	44.9%	44.9%
C Total	**5%**	**95%**	**100%**

d) In December 2019, Eurobank Ergasias S.A. announced that it has entered into binding agreements with doValue S.p.A. for the sale of the 20% of the mezzanine (representing the 80% of Class B1) and 50.1% of the junior notes of the aforementioned Cairo securitization in exchange for a cash consideration of ca. € 14 million. In June 2020 the sale was completed.

Upon the sale of 20% of the mezzanine notes, which effectively represents the majority stake of the Class B1, Eurobank Holdings ceased to control the SPVs and the related Cairo real estate companies, i.e. Cairo Estate I Single Member S.A, Cairo Estate II Single Member S.A, Cairo Estate III Single Member S.A. Furthermore, being the holder of 75% of the mezzanine and 44.9% of the junior notes, Eurobank Holdings, ceased to have control over the securitized loans, which resides with the SPV being the only party that has the practical ability to sell the loans under the instructions of the majority stake of B1 noteholders. Accordingly, Eurobank Holdings derecognized the investments in the above-mentioned subsidiaries as well as the securitized loan portfolio at its carrying amount.

The completion of the aforementioned sale transaction triggered the re-measurement of the portfolio's expected credit losses in accordance with the entity's accounting policy for the impairment of financial assets. Therefore, a loss of € 1,506 million was recognized in the second quarter of 2020 that was based on the fair valuation of the notes retained (notes 9 and 12).

The table below presents the ownership distribution of Cairo notes following the steps described in points (b) to (d) above:

Cairo noteholders after the completion of the sale transaction

Cairo notes	(A) - Eurobank S.A.[1]	(B) - Eurobank Holdings	(C) = (A) + (B) - Eurobank Holdings Group	(D) - Third Parties[2]	(E) = (C) + (D) - Total issue
A Senior	**100%**	**0%**	**100%**	**-**	***100%***
B1 Mezzanine	5%	-	5%	20%	*25%*
B2 Mezzanine	-	75%	75%	-	*75%*
B Total	**5%**	**75%**	**80%**	**20%**	***100%***
C1 Junior	5%	-	5%	50.1%	*55.1%*
C2 Junior	-	44.9%	44.9%	-	*44.9%*
C Total	**5%**	**44.9%**	**49.9%**	**50.1%**	***100%***

(1) Transferred from Eurobank Ergasias S.A. upon hive down.
(2) Sold to doValue S.p.A.

e) On 15 June 2020, Eurobank Holdings, following a decision of the Board of Directors (BoD), proceeded to the contribution of the retained Cairo notes, i.e. 75% of the mezzanine and 44.9% of the junior notes along with an amount of € 1.5 million in cash to its Cyprus-based subsidiary Mairanus Ltd, renamed to 'Cairo Mezz Plc', in exchange for the newly-issued shares of the above mentioned subsidiary. Based on the valuation, according to the provisions of Article 17 of L. 4548/2018, the fair value of the shares received by Eurobank Holdings amounted to € 57.5 million consisting of the fair value of the contributed Cairo notes of € 56 million and the cash amount of € 1.5 million (notes 14 and 16). The abovementioned BoD decision for the contribution of the Cairo notes retained by Eurobank Holdings initiated the distribution process and clearly demonstrated Management's commitment to the specific plan for the notes' disposal as the last step to the Group's Corporate Transformation Plan.

f) On 7 July 2020, the BoD of Eurobank Holdings proposed to the General Shareholders' Meeting the distribution of Cairo Mezz Plc shares to Eurobank Holding's shareholders through the decrease in kind of its share capital. On 28 July 2020, the General Shareholders' Meeting approved the decrease in kind of Eurobank Holdings' share capital via the decrease of the nominal value of each ordinary shareand the distribution to its shareholders of the shares issued by Cairo Mezz Plc with a value corresponding to the value of the share capital decrease, at a ratio of 1 share of Cairo Mezz Plc for every 12 Eurobank Holdings' shares already held. The Ministry of Development & Investments by virtue of its decision 81660/31.07.2020 approved the amendment of article 5 of Eurobank Holdings' Articles of Association. The impact from the distribution of Cairo Mezz Plc shares to Eurobank Holding's shareholders was the reduction by an equal amount of € 57.5 million of Eurobank Holding's share capital along with the related costs directly attributable to the equity transaction of € 0.4 million (note 18).

g) On 21 September 2020, Eurobank Holdings notified the Athens Stock Exchange Corporate Actions Committee of the aforementioned corporate action and announced that the 23rd of September 2020 was the last trading day during which its shares traded with the right to participate in the distribution of shares issued by Cairo Mezz, while from 24 September 2020 onwards they were traded on the Athens Stock Exchange with the new nominal value and without the right to participate in the aforementioned distribution. In addition, the beneficiaries of the distribution of the shares issued by Cairo Mezz Plc were Eurobank Holding's shareholders registered in the records of the Dematerialised Securities System (DSS) on 25 September 2020 (record date).

The below table presents, the ownership distribution of the Cairo notes following the completion of all steps involved, as described in points (b) to (f) above, as well as the respective valuation prices of each class of notes:

Cairo noteholders after the completion of the distribution (September 2020)

Cairo notes	(A) - Eurobank S.A.[1]	(B) - Eurobank Holdings	(C) = (A) + (B) - Eurobank Holdings Group	(D) - Cairo Mezz Plc[2]	(E) - Third parties[3]	(F) = (C) + (D) + (E) - Total issue	*Valuation price*
A Senior	**100%**	**0%**	**100%**	**0%**	**-**	**100%**	***100%***
B1 Mezzanine	5%	-	5%	-	20%	25%	
B2 Mezzanine	-	0%	0%	75%	-	75%	
B Total	**5%**	**0%**	**5%**	**75%**	**20%**	**100%**	***5%***
C1 Junior	5%	-	5%	-	50.1%	55.1%	
C2 Junior	-	0%	0%	44.9%	-	44.9%	
C Total	**5%**	**0%**	**5%**	**44.9%**	**50.1%**	**100%**	***0%***

(1) Transferred from Eurobank Ergasias S.A. upon hive down.
(2) Contributed by Eurobank Holdings and subsequently distributed to its shareholders.
(3) Sold to doValue S.p.A.

Following the completion of all steps involved, as described in points (b) to (f) above, the total equity impact for Eurobank Holdings, is presented in the below table:

	NAV impact
Impairment loss upon securitized loans' de-recognition (note 9)	(1,506)
Distribution of Cairo Mezz Plc shares	(58)
	(1,564)

Hive down

On 28 June 2019, the BoD of Eurobank Ergasias S.A. ("Demerged Entity") decided the initiation of the hive down process of the banking sector of the Demerged Entity and its transfer to a new company-credit institution that would be established ("the Beneficiary").

On 31 July 2019, the BoD of Eurobank Ergasias S.A. approved the Draft Demerger Deed through the aforementioned hive down and establishment of a new company-credit institution, pursuant to Article 16 of Law 2515/1997 and Articles 57 (3) and 59-74 of Law 4601/2019, as currently in force. In particular, the demerger would involve the hive-down of the banking sector of Eurobank Ergasias S.A., to which the assets and the liabilities are included, as described on the transformation balance sheet of the hived-down sector as at 30 June 2019 ("Transformation Date"). In accordance with the Draft Demerger Deed, Eurobank Ergasias S.A. retained the 95% of the Pillar mezzanine and junior notes which in September 2019 were sold to a third party investor, as well as the participation in Pillar DAC and the related Pillar real estate entity.

On 31 January 2020, the Demerged Entity's Extraordinary General Shareholders' Meeting (EGM) resolved, among others: a) the approval of the aforementioned demerger of Eurobank Ergasias S.A. through the banking sector's hive down and the establishment of a new company-credit institution under the corporate name "Eurobank S.A.", b) the approval of the Draft Demerger Deed as well as the Articles of Association of the Beneficiary, as they were approved by the Demerged Entity's BoD and c) the adjustment of the Articles of Association of the Demerged Entity which would cease to be a credit institution by amending its object and corporate name, as was also approved by its BoD.

On 20 March 2020, the demerger of Eurobank Ergasias through the banking sector's hive down and the establishment of a new company-credit institution ("Demerger") under the corporate name "Eurobank S.A" as well as the Articles of Association of the Beneficiary were approved by virtue of the decision of the Ministry of Development and Investments No 31847/20.03.2020, which was registered on the same day in the General Commercial Registry. At the aforementioned date: a) the Demerged Entity becomes the shareholder of the Beneficiary by acquiring all the shares issued by the Beneficiary and more specifically 3,683,244,830 common registered shares, of a nominal value of € 1.10 each and b) the Beneficiary substitutes the Demerged Entity, by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector as at 30 June 2019 and formed up to 20 March 2020, day of the Demerger's completion. In respect of pending lawsuits where the Demerged entity was an involved party and are related to the hived down banking sector, they will continue ipso jure by the Bank or against it.

On 23 March 2020, the Articles of Association of the Demerged Entity were amended with the decision of the Ministry of Development and Investments, Number 32403/23.03.2020, which was registered on the same day in the General Commercial Registry. According to article 1 of the Articles of Association, the corporate name and the distinctive title of the Demerged Entity is amended to "Eurobank Ergasias Services and Holdings S.A." and "Eurobank Holdings" respectively. The date of change of the Company's corporate name and distinctive title in the Athens Exchange was set for 24 March 2020.

The hive down of the banking sector (including subsidiaries/associates) constitutes a common control transaction, which involves a new entity to effect the combination of entities under common control. As a common control transaction, the hive down does not fall within the scope of the IFRS 3 'Business Combinations'; furthermore, it is a common control transaction that involves the set-up of a new company, which is neither the acquirer, nor a business and therefore it is not a business combination as defined by IFRS 3. Since IFRS 3 guidance does not apply, and the hive down does not meet the definition of a business combination under common control, it is accounted for as a capital re-organisation of the transferred business on the basis that no substantive economic change has occurred. In line with the Group's accounting policy for business combinations that involve the formation of a new entity, in case of a capital reorganization, the acquiring entity incorporates the assets and liabilities of the acquired entity at their carrying amounts, as presented in the books of that acquired entity, rather than those from the highest level of common control. Any difference between the cost of the transaction and the carrying amount of the net assets acquired is recognized in the equity of the new entity. In addition, the capital reorganization transactions do not have any impact on the Group's consolidated financial statements.

Accordingly, in the separate financial statements of Eurobank Holdings, the assets and liabilities of the business transferred (including investments in subsidiaries and associates) to Eurobank (Beneficiary) were derecognised and the investment in the Beneficiary was recognised at cost, which is the carrying value of the net assets given up. The Beneficiary respectively incorporated the assets and liabilities of the existing business at their pre-combination carrying amounts with a corresponding increase in share capital. Pre-existing valuation reserves under IFRS that were transferred to the Beneficiary were separately recognized in the Beneficiary's total equity.

In accordance with the Demerger Deed, Eurobank Holdings maintained activities and assets that are not related to the main banking activities but are mainly related to the strategic planning of the administration of non-performing loans and the provision of services to the Group companies and third parties. Furthermore, Eurobank Holdings retained the 95% of Cairo mezzanine and junior notes, the preferred securities and the participations in certain subsidiaries including Be Business Exchanges S.A., Cairo DACs, Pillar and Cairo real estate entities. In case of any assets or liabilities that would not be possible to be transferred, in the context of the above mentioned Draft Demerger Deed, the Demerged Entity undertakes the obligation to collect or liquidate the assets in accordance with the Beneficiary's instructions whereas the Beneficiary undertakes the obligation to indemnify the Demerged Entity for the settlement of the liabilities including any arising costs or losses. Accordingly, the Beneficiary, receives the remaining assets (including 100% of Cairo senior and 5% of mezzanine and junior notes that were recognized at fair value) and liabilities that constitute the banking sector, by issuing shares to the Demerged entity.

In addition, considering that the obligations of the Demerged Entity arising from the Tier 2 Subordinated Capital Instruments were not transferred to the Beneficiary, the latter pursuant to the terms of the Draft Demerger Deed has explicitly and irrevocably undertaken to fulfil the relevant obligations. In that context, on 20 March 2020, the Beneficiary issued a subordinated instrument of equivalent terms with those of TIER 2 mentioned above, which was fully subscribed by the Demerged Entity.

The table below presents at the hive down date, i.e. 20 March 2020, Eurobank Ergasias S.A. balance sheet before the hive down, and the adjustments made to derive both balance sheets of Eurobank and Eurobank Holdings after hive down.

	20 March 2020				
	(A) - Eurobank Ergasias S.A. € million	(B) - Intercompany (IC) net assets contributed to Eurobank S.A € million	(C) - Total net assets contributed to Eurobank S.A. € million	(D) - IC net assets of Eurobank Holdings & investment in Eurobank S.A. € million	(E) = (A) + (B) - (C) + (D) Eurobank Holdings S.A. € million
ASSETS					
Cash and balances with central banks	1,916		1,916		-
Due from credit institutions	3,887		3,817	103 [1]	173
Securities held for trading	28		28		-
Derivative financial instruments	2,381		2,381		-
Loans and advances to customers	30,023	2,425 [2]	28,592		3,856
Investment securities	6,995		6,995	950 [3]	950
Shares in subsidiaries	1,855		1,854	4,090 [4]	4,091
Investments in associates and joint ventures	101		101		-
Property and equipment	567		567		0
Investment property	873		873		-
Goodwill and other intangible assets	316		316		0
Deferred tax assets	4,832		4,832		-
Other assets	1,778	4	1,779		3
Assets of disposal groups classified as held for sale	41		41		-
Total assets	55,593	2,429	54,092	5,143	9,073
LIABILITIES					
Due to central banks	2,700		2,700		-
Due to credit institutions	7,677		7,677		-
Derivative financial instruments	2,904		2,904		-
Due to customers	33,169	103 [1]	33,272		-
Debt securities in issue	2,412	950 [3]	2,402	2,425 [2]	3,385
Other liabilities	1,064		1,047	4	21
Total liabilities	49,926	1,053	50,002	2,429	3,406
Total equity	5,667	1,376	4,090 [4]	2,714	5,667

Notes

1. € 103 million refer to deposits of Eurobank Holdings with Eurobank S.A.
2. € 2,425 million refer to the notes of Cairo securitizations retained by Eurobank S.A. (i.e. 100% senior notes, 5% of mezzanine and junior notes).
3. € 950 million refer to Tier 2 notes issued by Eurobank S.A. and retained by Eurobank Holdings.
4. € 4,090 million refer to the investment in Eurobank S.A. held by Eurobank Holdings corresponding to the net assets contributed to the former by Eurobank Ergasias S.A.; Eurobank S.A. total equity of € 4,090 million as at 20 March 2020 comprises (a) share capital of € 4,051.6 million as it has been determined based on the assets and liabilities included in the transformation balance sheet of the hived-down banking sector of Eurobank Ergasias S.A. as at 30 June 2019, (b) pre-existing valuation reserves of € 238.7 million and (c) retained losses of € 200.4 million.

5. Financial risk management and fair value

The Company is exposed to financial risks such as credit risk, market risk (including currency and interest rate risk) liquidity risk and operational risks.

5.1 Financial risk factors and risk management

As part of its overall system of internal controls the Company has engaged in a Service Level Agreement (SLA) with Eurobank S.A. in order to receive supporting and advisory services in all applicable areas of risk management (credit, market, liquidity and operational risks) undertaken by the company.

The Company's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

Following the completion of the corporate transformation (note 4) the main financial risks to which the Company is exposed relate to:

(a) Credit risk

The Company takes on exposure to credit risk which is the risk that a counterparty will be unable to fulfill its payment obligations in full when due. The Company is mainly exposed to a subordinated instrument (note 13) issued by its subsidiary Eurobank S.A. and € 14 million deposits that are placed with the latter. Accordingly, the aggregate carrying amount of the above financial assets approximates the maximum credit risk exposure of the Company.

(b) Market risk

The Company takes on exposure to market risk, which is the risk of potential financial loss due to an adverse change in market variables, such as interest rates and foreign exchange rates.

The Company's interest rate risk, which mainly arises from the position in the aforementioned subordinated fixed rate instrument, is eliminated by the Tier 2 subordinated capital instrument issued by the Company, which has equivalent terms with those of the former.

The Company's financial assets and liabilities are in Euro, therefore, currency risk is eliminated.

(c) Liquidity risk

The maturity of the Company's main assets and liabilities, which relate to the aforementioned subordinated instruments, match, and the underlying cash flows are the same. Accordingly, the Company's liquidity or cash flow risk is substantially eliminated.

5.2 Fair value of financial assets and liabilities

The Company's financial instruments carried at amortized cost 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 occurring transactions. Following the completion of the corporate transformation (note 4), none of the Company's financial instruments are categorised 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 similar financial instruments in active markets (ii) quoted prices for identical financial instruments in markets that are not active, (iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and (iv) other unobservable inputs which are insignificant to the entire fair value measurement. Following the completion of the corporate transformation (note 4), Level 2 financial instruments include the subordinated instrument (note 13) issued by its subsidiary Eurobank S.A. and the Tier 2 subordinated capital instrument (note 16) issued by the Company.

- 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). Following the completion of the corporate transformation (note 4), the Company's financial instruments, which are categorised into Level 3 of the fair value hierarchy refer mainly to the sight deposits with Eurobank S.A.

The fair value of the Tier 2 capital instrument issued by the company was determined by using quotes for identical financial instruments in non-active markets and amounted to € 932 million (2019: € 865 million). The fair value of the subordinated instrument issued by the Company's subsidiary Eurobank S.A. was determined based on the aforementioned instrument, which has equivalent terms, therefore, amounted also to € 932 million. Moreover, the carrying amount of the Company's sight deposits with Eurobank S.A. represents reasonable approximation of their fair value.

6. Net interest income

	31 December 2020 € million	31 December 2019 € million
Interest income		
Customers	**75**	186
Securities	**46**	-
	121	186
Interest expense		
Debt securities in issue	**(58)**	-
	(58)	-
Total from continuing operations	**63**	186

In the year ended 31 December 2020, an amount of € 46 million is included in interest expense (continuing operations) relating to the TIER 2 capital instruments issued by the Company, while an equal amount is included in interest income for the subordinated TIER 2 note issued by Eurobank SA and held by the Company. In addition, interest expense includes € 12.4 million for the financial liability relating to the Senior notes of the Cairo securitization contributed to Eurobank SA as of the hive down date i.e. 20 March 2020 (note 4).

In the year ended 31 December 2020, interest income from customers refers to the underlying loan portfolio of the Cairo securitization until its derecognition in June 2020, while for the comparative period it refers to the underlying loan portfolios of Cairo and Pillar securitizations. As no internal allocations have been made between continuing and discontinued operations, the funding expense of the Company's aforementioned continuing activities until the hive down date was included in the net interest income of the discontinued activities i.e. those of the hived down banking sector (note 4).

7. Commission income/(expense)

The commission expense amounting to € 8 million (2019: €12 million) , refers to the administrative fees to Eurobank FPS Loans and Credits Claim Management S.A. (renamed to doValue Greece Loans and Credits Claim Management S.A.) for the management of the Cairo loan portfolio.

8. Operating expenses

In the year ended 31 December 2020 the operating expenses are € 9 million mainly refer a) to staff cost € 3.7 million (2019: € 3.1 million) and b) other administrative expenses € 5.2 million (2019: € 4.4 million). Administrative expenses include € 4 million (2019: € 4.4 million) insurance premiums relating to the Group's financial lines insurance, including protection for professional liability.

9. Impairment allowance for loans and advances to customers

The following tables present the movement of the impairment allowance on loans and advances to customers (expected credit losses – ECL):

	31 December 2020												
	Wholesale			Mortgage			Consumer			Small business			
	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	Total € million
Impairment allowance as at 1 January	**49**	**74**	**2,214**	**11**	**173**	**1,456**	**28**	**36**	**831**	**17**	**96**	**1,481**	**6,466**
Discontinued operations (Hived down banking sector)	(48)	(59)	(919)	(11)	(145)	(601)	(28)	(35)	(589)	(17)	(80)	(451)	**(2,983)**
Transfers between stages													
- to 12-month ECL	-	-	-	1	(1)	(0)	0	(0)	(0)	2	(1)	(1)	-
- to lifetime ECL	-	-	-	(0)	10	(10)	(0)	1	(1)	(0)	5	(5)	-
- to lifetime ECL credit-impaired loans	-	(12)	12	(0)	(12)	12	(0)	(0)	0	(0)	(8)	8	-
Impact of ECL net remeasurement	3	15	474	6	58	391	0	0	31	19	36	473	**1,506**
Loans and advances derecognised[(1)]	(4)	(18)	(1,764)	(7)	(83)	(1,234)	(0)	(1)	(268)	(21)	(48)	(1,469)	**(4,917)**
Amounts written off	-	-	-	-	-	(1)	-	-	(1)	-	-	(1)	**(3)**
Unwinding of Discount	-	-	(18)	-	-	(9)	-	-	(3)	-	-	(22)	**(52)**
Foreign exchange and other movements	-	-	1	-	-	(4)	-	(1)	0	-	-	(13)	**(17)**
Impairment allowance as at 31 December	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	31 December 2019												
	Wholesale			Mortgage			Consumer			Small business			
	12-month ECL-Stage 1 € million	Lifetime ECL-Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL-Stage 1 € million	Lifetime ECL-Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL-Stage 1 € million	Lifetime ECL-Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL-Stage 1 € million	Lifetime ECL-Stage 2 € million	Lifetime ECL credit-impaired € million	Total € million
Impairment allowance as at 1 January	50	97	2,581	30	279	2,145	33	91	919	11	211	1,520	7,967
New loans and advances originated or purchased	14	-	-	0	-	-	6	-	-	1	-	-	21
Transfers between stages													
- to 12-month ECL	13	(12)	(1)	41	(40)	(1)	29	(27)	(2)	84	(83)	(1)	-
- to lifetime ECL not credit-impaired loans	(6)	41	(35)	(2)	119	(117)	(6)	38	(32)	(1)	82	(81)	-
- to lifetime ECL credit-impaired loans	(1)	(6)	7	(2)	(35)	37	(1)	(19)	20	(0)	(24)	24	-
Impact of ECL net remeasurement	(21)	(47)	185	(58)	(143)	360	(31)	(47)	177	(76)	(91)	208	416
Recoveries from written - off loans	-	-	0	-	-	0	-	-	1	-	-	0	1
Loans and advances derecognised/reclassified as held for sale during the year[1]	-	-	(112)	-	(14)	(830)	(2)	(0)	(0)	(1)	(0)	(0)	(959)
Amounts written off	-	-	(364)	-	-	(119)	-	-	(210)	-	-	(125)	(818)
Unwinding of Discount	-	-	(66)	-	-	(44)	-	-	(24)	-	-	(61)	(195)
Foreign exchange and other movements	(0)	1	19	2	7	25	(0)	0	(18)	(1)	1	(3)	33
Impairment allowance as at 31 December	49	74	2,214	11	173	1,456	28	36	831	17	96	1,481	6,466

[1] It represents the impairment allowance of loans derecognized during the year due to a) securitization/sale transactions and b) substantial modifications of the loans' contractual terms and those that have been reclassified as held for sale during the year.

The impairment losses relating to loans and advances to customers recognized in the Company's income statement for the year ended 31 December 2020 amounted to € 1,508 million (2019: € 529 million of which € 207 million relate to the continuing operations) and are analyzed as follows:

	2020 € million	2019 € million
Impairment loss on loans and advances to customers	**(1,506)**	(196)
Modification loss on loans and advances to customers	**(2)**	(11)
Total from continuing operations	**(1,508)**	(207)

10. Income tax

As of the year 2019 onwards, according to Law 4646/2019 which was enacted in December 2019 and amended Law 4172/2013, the Greek corporate tax rate for legal entities other than credit institutions (i.e. credit institutions that fall under the requirements of article 27A of Law 4172/2013 regarding eligible DTAs/deferred tax credits) decreased from 29% to 24%. In addition, according to the aforementioned Law 4646/2019, as of 1 January 2020 the withholding tax rate for dividends distributed, other than intragroup dividends, decreased from 10% to 5%. In particular, the intragroup dividends under certain preconditions are relieved from both income and withholding tax.

Based on the management's assessment the Company is not expected to have sufficient future taxable profits, against which the unused tax losses mainly resulting from the Cairo transaction (note 12) can be utilised. Accordingly, in the year ended 31 December 2020, an income tax has not been recognized for the Company's continuing operations. For the comparative year, an amount of € 24 million deferred income tax attributable to the Company's continuing operations has been recognized mainly referring to impairment losses relating to loans and advances to customers.

Deferred tax

The movement on deferred tax is as follows:

	31 December 2020 € million	31 December 2019 € million
Balance at 1 January	**4,754**	4,901
Income statement credit/(charge) from continuing operations	**-**	24
Income statement credit/(charge) from discontinued operations	**1**	(8)
Investment securities at FVOCI	**80**	(167)
Cash flow hedges	**(3)**	2
Other	**0**	2
Hived down banking sector	**(4,832)**	-
Balance at 31 December	**-**	4,754

Tax certificate and open tax years

The Company, in accordance with the general principles of the Greek tax legislation has 6 open tax years (i.e. five years as from the end of the fiscal year within which the relevant tax return should have been submitted). For the open tax year 2015 the Company was required to obtain an 'Annual Tax Certificate' pursuant to the Law 4174/2013, which is issued after a tax audit is performed by the same statutory auditor or audit firm that audits the annual financial statements. For fiscal years starting from 1 January 2016 onwards, the 'Annual Tax Certificate' is optional, however, the Company will continue to obtain such certificate.

The tax certificates, which have been obtained by the Company are unqualified for the open tax years 2015-2019. For the year ended 31 December 2020, the tax audit from external auditor is in progress.

In accordance with the Greek tax legislation and the respective Ministerial Decisions issued, additional taxes and penalties may be imposed by the Greek tax authorities following a tax audit within the applicable/aforementioned statute of limitations, irrespective of whether an unqualified tax certificate has been obtained from the tax paying company. In light of the above, as a general rule, the right of the Greek State to impose taxes up to tax year 2014 (included) has been time-barred for the Company as at 31 December

2020. On 18 January 2021, the Company received two orders for a tax audit by the tax authorities for the tax years 2015 and 2016. The tax audit is in progress.

In reference to its total uncertain tax positions, the Company assesses all relevant developments (e.g. legislative changes, case law, ad hoc tax/legal opinions, administrative practices) and raises adequate provisions.

Unused tax losses

As at 31 December 2020, the Company has not recognised deferred tax asset (DTA) on unused tax losses amounted to € 400 million (2019: € 233 million). The analysis of unrecognized DTA on unused tax losses of the Company per year of maturity of related tax losses is presented in the table below:

	Unrecognised DTA € million
Year of maturity of unused tax losses	
2023	48
2024	68
2025	284
Total	**400**

11. Discontinued operations

(a) Discontinued operations

Following the demerger of Eurobank Ergasias S.A. through the banking sector's hive down, which was completed on 20 March 2020 (note 4), the results of the banking sector for the current period (i.e. from 1 January to 20 March 2020), which comprised the major part of the demerged company's operations, are presented as discontinued operations. The comparative information for year ended 31 December 2019 are presented based on the results of the net assets transferred, without any notional internal allocations between the continued and discontinued operations.

The results of the discontinued operations are presented in the below table:

	20 March 2020	31 December 2019
	Hived down banking sector € million	Hived down banking sector € million
Net interest income	182	806
Net banking fee and commission income	31	159
Income from non banking sercives	14	42
Dividend income	0	142
Net trading income/(loss)	(2)	(24)
Gains less losses from investment securities	2	74
Other income/(expenses)	(2)	43
Operating income	**225**	**1,242**
Operating expenses	(144)	(646)
Profit before impairments, provisions and restructuring costs from discontinued operations	**81**	**596**
Impairment losses relating to loans and advances to customers [(1)]	(109)	(322)
Goodwill impairment	-	(62)
Other impairment losses and provisions	(10)	(41)
Restructuring costs	(4)	(69)
Profit/(Loss) before tax from discontinued operations	**(42)**	**102**
Income tax	1	(12)
Net profit/(loss) from discontinued operations	**(41)**	**90**

[(1)] For the period 1 January to 20 March 2020, it includes impairment loss on loans and advances to customers of € 87 million and modification loss of € 22 million (for the year ended 31 December 2019: € 242 million, € 51 million respectively, while € 29 million related to impairment loss for credit related commitments).

Information on the assets and liabilities transferred in the context of the Hive-down of the banking sector of Eurobank Ergasias is provided in note 4.

(b) Equity reserve: revaluation of the investment securities at FVOCI

Gains and losses arising from the changes in the fair value of investment securities at FVOCI are recognized in a corresponding revaluation reserve in equity. The movement of the reserve is as follows:

	2020 € million	2019 € million
Balance at 1 January	**462**	53
Net gains/(losses) from changes in fair value	**(203)**	980
Tax (expense)/benefit	**60**	(284)
	(143)	696
Net (gains)/losses transferred to net profit on disposal	**(10)**	(60)
ECL transferred to net profit	**2**	(6)
Tax (expense)/benefit on net (gains)/losses transferred to net profit on disposal	**3**	17
Tax (expense)/benefit on ECL transferred to net profit	**0**	2
	(5)	(47)
Net (gains)/losses transferred to net profit from fair value hedges	**(58)**	(338)
Tax (expense)/benefit	**17**	98
	(41)	(240)
Transfer of reserve relating to dicontinued operations net of tax (hive-down) to retained earnings	**(273)**	-
Balance at 31 December	**-**	462

12. Loans and advances to customers

Cairo securitization – loans' derecognition

In December 2019, Eurobank Ergasias announced that it has entered into a binding agreement with doValue S.p.A. for the sale of 20% of the mezzanine and 50.1% of the junior notes of a securitization of a mixed portfolio consisting primarily of non-performing loans (NPEs) of ca. € 7.5 billion gross book value. In June 2020, the above sale was completed for a cash consideration of ca. € 14 million.

Upon completion of the sale of 20% of the mezzanine notes that effectively represents the majority stake of Class B1, i.e. 80% of Class B1, Eurobank Holdings (ex-Eurobank Ergasias post hive down) ceased to control the SPVs on the basis that it does not have the power to direct their relevant activities that resides with the majority stake of Class B1 noteholders. At the same time, the above sale triggered the de-recognition assessment of the underlying loan portfolio where it was concluded that Eurobank Holdings ceased to have control over the securitized loans, which resides with the SPV being the only party that has the practical ability to sell the loans under the instructions of the majority stake of B1 noteholders.

Accordingly, in June 2020, Eurobank Holdings proceeded with the re-measurement of the portfolio's expected credit losses in accordance with its accounting policy for the impairment of financial assets and recognized an impairment loss of € 1,506 million net of expenses (note 9) in the second quarter of 2020 based on the fair value of the notes retained by Eurobank Holdings, the carrying amount of the notes de-recognized from its financial liabilities and the consideration received for the mezzanine notes' disposal to doValue S.p.A. Furthermore, in June 2020, Eurobank Holdings, (i) derecognized the underlying loan portfolio in its entirety of carrying amount € 2,341 million, comprising loans with gross carrying amount of € 7,259 million which carried an impairment allowance of € 4,918 million after the recognition of the Cairo loss , along with the impairment allowance of the letter of guarantees included in the underlying portfolio of € 12 million as well as the related net securitization receivables of € 163 million, (ii) derecognized from its financial liabilities the obligations for the Cairo notes transferred to Eurobank through the hive down process, i.e. 100% of senior, 5% of mezzanine and 5% of junior notes, of carrying amount € 2,422 million, including the senior notes' accrued income (iii) recognized the fair value of the retained mezzanine and junior notes within its financial assets, i.e. 75% of mezzanine and 44.9% of junior notes of € 56 million as well as the cash consideration received from doValue S.p.A. of € 14 million.

Finally, in June 2020, following the respective decision by its Board of Directors to contribute the aforementioned Cairo notes to its Cyprus-based subsidiary company Mairanus Ltd (renamed to 'Cairo Mezz Plc'), Eurobank Holdings derecognized the retained notes from its balance sheet and recognized an investment in the above subsidiary for the newly-issued shares issued in exchange for the notes contributed.

The table below represents the percentage holding of the Cairo notes as at 31 December 2020 as well as their valuation price:

Cairo notes	(A) - Eurobank S.A. [1]	(B) - Eurobank Holdings	(C) - Cairo Mezz Plc[2]	(D) = (A) + (B) + (C) - Eurobank Holdings Group	(E) - Third parties[3]	(F) = (D) + (E) - Total issue	*Valuation price*
A Senior	**100%**	**0%**	**0%**	**100%**	**-**	**100%**	***100%***
B1 Mezzanine	5%	-	-	5%	20%	25%	-
B2 Mezzanine	-	0%	75%	75%	-	75%	-
B Total	**5%**	**0%**	**75%**	**80%**	**20%**	**100%**	***5%***
C1 Junior	5%	-	-	5%	50.1%	55.1%	-
C2 Junior	-	0%	44.9%	44.9%	-	44.9%	-
C Total	**5%**	**0%**	**44.9%**	**49.9%**	**50.1%**	**100%**	***0%***

(1) Transferred from Eurobank Ergasias upon hive down.
(2) Contributed by Eurobank Holdings and subsequently distributed to its shareholders.
(3) Sold to doValue S.p.A.

Pillar securitization – loans' derecognition

In June 2019, Eurobank Holdings announced that it has entered into a binding agreement with Celidoria S.A R.L for the sale of 95% of the mezzanine and junior notes of a securitization of a residential mortgage loan portfolio of ca. € 2 billion gross book value comprising primarily NPEs. Eurobank Holdings would retained the 100% of the senior notes, as well as the 5% of the mezzanine and junior notes. As at 30 June 2019, the portfolio comprising loans with gross carrying amount of € 1,987 million, which carried an impairment allowance of € 845 million, was classified as held for sale. The net carrying amount of the loan portfolio amounting to € 1,142 million corresponded to its implied valuation based on the nominal value of the senior notes and the sale price of the mezzanine notes according to the terms of the above agreement.

In September 2019, the above transaction was completed for a total consideration of € 102.5 million, of which € 70 million cash and € 32.5 million deferred amount subject to the fulfillment of the terms of the agreement. The final consideration amounted to € 70 million in cash, while the above deferred amount that was previously recognized, was reversed in the fourth quarter of 2019, as the underlying terms and conditions were not fulfilled. Accordingly, Eurobank Holdings ceased to control the SPV ('Pillar Finance Designated Activity Company') and de-recognized the underlying loan portfolio in its entirety, on the basis that it transferred substantially all risk and rewards of the underlying loan portfolio's ownership. In addition, Eurobank Ergasias recognized the retained notes on its balance sheet. In March 2020, upon the completion of the hive down process, the retained notes transferred, inter alia, to Eurobank.

The following table presents the movement of the gross carrying amounts for loans and advances to customers by product line and stage and is calculated by reference to the opening and closing balances for the reporting year from 1 January 2020 to 31 December 2020:

	31 December 2020												
	Wholesale			Mortgage			Consumer			Small business			
	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	12-month ECL - Stage 1 € million	Lifetime ECL - Stage 2 € million	Lifetime ECL credit-impaired € million	Total € million
Gross carrying amount at 1 January	**9,572**	**1,276**	**4,130**	**5,878**	**3,042**	**3,736**	**1,351**	**264**	**971**	**1,873**	**888**	**3,133**	**36,114**
Discontinued operations (Hived down banking sector)	**(9,564)**	**(1,103)**	**(1,804)**	**(5,853)**	**(2,820)**	**(1,871)**	**(1,351)**	**(259)**	**(659)**	**(1,821)**	**(713)**	**(1,008)**	**(28,826)**
Transfers between stages													
-to 12-month ECL	-	-	-	7	(6)	(1)	0	(0)	(0)	22	(22)	(0)	-
-to lifetime ECL	-	-	-	(11)	54	(43)	(0)	1	(1)	(15)	38	(23)	-
-to lifetime ECL credit-impaired loans	-	(133)	133	(2)	(86)	88	(0)	(1)	1	(6)	(83)	89	-
Loans and advances derecognised during the year	(7)	(39)	(2,453)	(19)	(183)	(1,905)	(0)	(5)	(309)	(54)	(109)	(2,177)	**(7,260)**
Amounts written-off	-	-	-	-	-	(1)	-	-	(1)	-	-	(1)	**(3)**
Repayments	-	-	-	(0)	(0)	(2)	(0)	(0)	(1)	(0)	(0)	(1)	**(4)**
Foreign exchange differences and other movements	(1)	(1)	(6)	(0)	(1)	(1)	0	(0)	(1)	1	1	(12)	**(21)**
Gross Carrying amount at 31 December	-	-	-	-	-	-	-	-	-	-	-	-	-

13. Investment securities

In the context of the hive down (note 4), considering that the obligations of Eurobank Ergasias (‘ Demerged Entity’) arising from the Tier 2 Subordinated capital instruments were not transferred to Eurobank SA (‘the Beneficiary’), the latter pursuant to the terms of the Draft Demerger Deed has explicitly and irrevocably undertaken to fulfil the relevant obligations. Accordingly, on 20 March 2020, the Beneficiary issued a subordinated instrument of equivalent terms with those of the TIER 2 mentioned above which was fully subscribed by the Demerged Entity. As at 31 December 2020, the carrying amount of the subordinated instrument held by the Company and categorised as at amortised cost, amounted to € 942 million, including accrued interest of € 0.2 million and impairment allowance of € 8 million (12-month ECL). The fair value of the said security was determined based on quotes for the related Tier 2 instrument (note 16) and amounted to € 932 million.

14. Shares in subsidiaries

The following is a listing of the Company's subsidiaries held directly at 31 December 2020:

Name	Note	Percentage holding	Country of incorporation	Line of business
Eurobank S.A.	a	100.00	Greece	Banking
Be Business Exchanges S.A. of Business Exchanges Networks and Accounting and Tax Services		98.01	Greece	Business-to-business e-commerce, accounting, tax and sundry services

(a) Eurobank S.A., Greece

On 20 March 2020, Eurobank Ergasias S.A. (“Eurobank Ergasias” or “the Demerged Entity”) announced that the demerger of Eurobank Ergasias through banking sector’s hive down and establishment of a new company-credit institution (“Demerger”) under the corporate name “Eurobank S.A.” (“the Beneficiary”) was approved. Following the approval of the Demerger, the Demerged Entity, which as of 23 March 2020 was renamed to “Eurobank Ergasias Services and Holdings S.A.”, became the sole shareholder of the Beneficiary by acquiring all of its issued shares. Further information is provided in note 4.

(b) Cairo Mezz Plc, portfolio company, Cyprus

In June 2020, the Company acquired 100% of the shares of Mairanus Ltd for a cash consideration of € 2 thousand. In the same month, the Company following the respective decision by its Board of Directors, contributed cash of € 1.5 million and the retained Cairo notes of fair value € 56 million in exchange for newly-issued shares of Mairanus Ltd, which in September 2020 was renamed to Cairo Mezz Plc. In addition, in September 2020, the above shares were distributed to Eurobank Holdings shareholders, as the last step of the Cairo transaction (note 12).

(c) Special purpose financing vehicles for the securitization of loan portfolios and related real estate companies – Project “Cairo”

On 5 June 2020, the Company announced that the sale of a portion of mezzanine and junior securitization notes of the € 7.5 billion multi-asset NPE securitization (project “Cairo”), has been completed (note 16). Following the above, the Company ceased to have control over the related special purpose financing vehicles (Cairo No. 1 Finance Designated Activity Company, Cairo No. 2 Finance Designated Activity Company, Cairo No. 3 Finance Designated Activity Company) and the related real estate companies (Cairo Estate I Single Member S.A., Cairo Estate II Single Member S.A., Cairo Estate III Single Member S.A.).

15. Other assets

As at 31 December 2020, other assets amounting to € 3.7 million primarily consist of (a) € 2.1 million prepaid expenses mainly for insurance premiums (note 8) and (b) € 1.1 million receivables for IT services provided to the Group companies and third parties.

16. Debt securities in issue

	31 December 2020 € million	31 December 2019 € million
Securitizations	-	943
Subordinated notes (Tier 2)	**947**	947
Covered bonds	-	500
Total	**947**	2,390

Pillar securitization

In June 2019, Eurobank Ergasias through its special purpose financing vehicle (SPV) 'Pillar Finance Designated Activity Company', issued asset backed securities (notes) of total value of ca. € 2 billion collateralized by a portfolio of primarily non performing residential mortgage loans (project Pillar), which were fully retained by the entity. The securitization notes consisted of € 1,044 million senior issued at par, € 310 million mezzanine issued at par and € 645 million junior of issue price € 1. In the same month, Eurobank Ergasias announced that it has entered into a binding agreement with Celidoria S.A R.L, an entity ultimately owned by funds whose investment manager is the global investment management firm Pimco, for the sale of 95% of the mezzanine and junior notes of the abovementioned securitization. Upon the completion of the transaction, in September 2019, Eurobank Ergasias ceased to have control over the SPV.

Cairo securitisation

In June 2019, Eurobank Ergasias, through its special purpose financing vehicles (SPVs) 'Cairo No. 1 Finance Designated Activity Company', 'Cairo No. 2 Finance Designated Activity Company' and 'Cairo No. 3 Finance Designated Activity Company', issued asset backed securities (notes) of total value of ca. € 7.5 billion, collateralized by a mixed assets portfolio of primarily non performing loans, which were fully retained by the entity. The securitization notes consisted of € 2,409 million senior issued at par, € 1,464 million mezzanine issued at par and € 3,633 million junior of issue price € 1.

In the context of Law 4649/2019 ('Hercules' – Hellenic Asset Protection Scheme) voted by the Greek parliament on 16 December 2019, the SPVs opted in for the state guarantee scheme. Specifically, the applications submitted by Eurobank Ergasias to the Ministry of Finance were approved on 23 July 2020 while the Guarantee deed was signed on 25 February 2021.

On 20 March 2020, the demerger of Eurobank Ergasias (renamed to Eurobank Holdings) through the hive down of the banking sector and the establishment of a new company-credit institution under the corporate name 'Eurobank S.A.' (Eurobank) was completed (note 4). At the aforementioned date, Eurobank assumed, inter alia 100% of the senior, 5% of the mezzanine and junior notes of the Cairo securitization of total fair value of € 2,425 million. The rest of the Cairo notes, i.e. 95% of the mezzanine and 95% of the junior notes, remained with Eurobank Holdings.

In December 2019, Eurobank Ergasias announced that it has entered into binding agreements with doValue S.p.A. for the sale of 20% of the mezzanine and 50.1% of the junior notes of the aforementioned Cairo securitization for a cash consideration of ca. € 14 million. Upon the completion of the transaction, in June 2020, Eurobank Holdings ceased to have control over the SPVs.

Finally, in June 2020, Eurobank Holdings, following the respective decision of the Board of Directors, proceeded to the contribution the Cairo notes retained, i.e. 75% of the mezzanine and 44.9% of the junior notes, of total fair value of ca. € 56 million to the Cyprus-based subsidiary "Mairanus Ltd" in exchange for its newly-issued shares.

A description of the accounting implications of the aforementioned transactions and events is provided in notes 4 and 11.

Tier 2 Capital instruments

In January 2018, Eurobank Ergasias issued Tier 2 capital instruments of face value of € 950 million, in replacement of the preference shares which had been issued in the context of the first stream of Hellenic Republic's plan to support liquidity in the Greek economy under Law 3723/2008. The carrying amount of the aforementioned instruments, which have a maturity of ten years (until 17 January 2028) and pay fixed nominal interest rate of 6.41%, that shall be payable semi-annually, as at 31 December 2020, amounted to € 947 million, including € 3 million unamortized issuance costs and € 0.2 million accrued interest. Their fair value, which was determined by using quotes for identical financial instruments in non-active markets, amounted to € 932 million.

17. Other liabilities

As at 31 December 2020, other liabilities amounting to € 1.6 million primarily consist of (a) 0.6 million accrued expenses, (b) € 0.5 million current payables to suppliers and (c) € 0.4 million Standard legal staff retirement indemnity obligations.

Standard legal staff retirement indemnity obligations

The Company provides for staff retirement indemnity obligation for its employees, who are entitled to a lump sum payment based on the number of years of service and the level of remuneration at the date of retirement, if they remain in the employment of the Company until normal retirement age, in accordance with the local labor legislation. The above retirement indemnity obligations typically expose the Company to actuarial risks such as interest rate risk and salary risk. Therefore, a decrease in the discount rate used to calculate the present value of the estimated future cash outflows or an increase in future salaries will increase the staff retirement indemnity obligations of the Company.

The movement of the liability for standard legal staff retirement indemnity obligations is as follows:

	2020 € million	2019 € million
Balance at 1 January	**46**	43
Current service and interest cost [1]	**1**	4
of which continued operations	***0.01***	*0.02*
Past service cost and (gains)/losses on settlements	**2**	28
Remeasurements:		
Actuarial (gains)/losses arising from changes in financial assumptions	**0**	4
Actuarial (gains)/losses arising from experience adjustments	**(0)**	1
Benefits paid	**(2)**	(34)
Hive down banking sector	**(47)**	-
Balance at 31 December	**0.4**	46

[1] For the year 2020, current service cost amounts to € 0.7 million and interest cost amounts to € 0.1 million (2019: € 3 million and € 1 million respectively).

The significant actuarial assumptions (expressed as weighted averages) were as follows:

	2020 %	2019 %
Discount rate	0.5	0.9
Future salary increases	2.1	1.9

As at 31 December 2020, the average duration of the standard legal staff retirement indemnity obligation was 16 years (2019: 17 years).

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2020 is as follows:

An increase/(decrease) of the discount rate assumed, by 50 bps/(50 bps), would result in a (decrease)/ increase of the standard legal staff retirement obligations by (€ 0.03 million)/ € 0.03 million.

An increase/(decrease) of the future salary growth assumed, by 0.5%/(0.5%), would result in an increase /(decrease) of the standard legal staff retirement obligations by € 0.02 million/ (€ 0.02 million).

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and assumptions used in preparing the above sensitivity analysis were consistent with those used to estimate the retirement benefit obligation and did not change compared to the previous year.

Voluntary Exit Schemes (VES)

In September 2020, Eurobank Holdings group launched a new VES for eligible units in Greece, which was offered to employees over a specific age limit. The new VES was implemented through either lump-sum payments or long term leaves during which the employees will be receiving a percentage of a monthly salary, or a combination thereof, and the cost refers almost in its entirety to Eurobank S.A. and its subsidiaries.

In 2020, an amount of € 2.7 million has been recognised in the Company's income statement (discontinued operations) relating to the additional cost for the VES that was launched by the Company in 2019.

18. Share capital and share premium

As at 31 December 2020, the par value of the Company's shares is € 0.22 per share (2019: € 0.23). All shares are fully paid. The movement of share capital, share premium and number of shares are as follows:

	Share capital € million	Share premium € million	Number of issued shares
Balance at 1 January	853	8,056	3,709,161,852
Share capital decrease	(57)	-	-
Capitalization of taxed reserves	21	-	-
Balance at 31 December	**816**	**8,056**	**3,709,161,852**

Decrease of the share capital in kind

On 7 July 2020, the Board of Directors of the Company proposed to the General Shareholders' Meeting the distribution of Mairanus Ltd (renamed to Cairo Mezz Plc) shares to the Company's shareholders through the decrease in kind of its share capital.

Following the above, on 28 July 2020, the Annual General Meeting of the Shareholders of the Company approved among others:

(a) the decrease of the share capital in kind with the decrease in the nominal value of each ordinary share issued by the Company by € 0.0155 and the distribution to its shareholders of shares issued by Cairo Mezz Plc, with a value corresponding to the value of the share capital decrease, i.e. 309,096,821 common shares issued by Cairo Mezz Plc, each common registered share of nominal value € 0.10, at a ratio of 1 share of Cairo Mezz Plc for every 12 shares of the Company already held (note 4), and

(b) the capitalization of taxed reserves amounting to € 20,400,390.19 for the purpose of rounding the new nominal value of each ordinary share issued by the Company.

Following the aforementioned decision, the Company's total share capital amounts to € 816,015,607.44 and the total number of shares remains unchanged, i.e. 3,709,161,852 common voting shares of a nominal value of € 0.22 each.

Share options

In addition, the aforementioned Annual General Meeting of the shareholders of the Company:

(a) approved the establishment of a five year shares award plan, starting from 2021, in the form of stock options rights by issuing new shares with a corresponding share capital increase, awarded to executives (of the Management) and personnel of the Company and its affiliated companies. The maximum number of rights that can be approved will be 55,637,000 rights, each of which will correspond to one new share, i.e. in case all option rights are exercised up to 55,637,000 new common registered shares of the Company in total will be allocated, corresponding to 1.5% of the current paid share capital. The exercise price of each new share is equal to the nominal value of the share.

(b) authorized the Board of Directors of Eurobank Holdings to determine the remaining terms and conditions of the plan.

Treasury shares

According to paragraph 1 of Article 16c of Law 3864/2010, during the period of the participation of the HFSF in the share capital of the Company, the Company is not permitted to purchase treasury shares without the approval of the HFSF.

19. Reserves and retained earnings

	Statutory reserves € million	Non-taxed reserves € million	Fair value reserve € million	Other reserves € million	Retained earnings € million	Total € million
Balance at 1 January 2019	205	887	53	6,463	(11,979)	(4,371)
Net profit	-	-	-	-	31	31
Merger with Grivalia Properties REIC	9	-	-	549	332	890
Debt securities at FVOCI	-	-	409	-	-	409
Cash flow hedges	-	-	-	(5)	-	(5)
Actuarial gains/(losses) on post employment benefit obligations, net of tax	-	-	-	(4)	-	(4)
Hybrid capital's dividend paid and buy back, net of tax	-	-	-	-	(4)	(4)
Balance at 31 December 2019	214	887	462	7,003	(11,620)	(3,054)
Balance at 1 January 2020	**214**	**887**	**462**	**7,003**	**(11,620)**	**(3,054)**
Net profit	-	-	-	-	(1,512)	**(1,512)**
Capitalization of taxed reserves (note 18)	-	-	-	-	(21)	**(21)**
Debt securities at FVOCI	-	-	(189)	-	-	**(189)**
Cash flow hedges	-	-	-	7	-	**7**
Actuarial gains/(losses) on post employment benefit obligations, net of tax	-	-	-	(0)	-	**(0)**
Hybrid capital's dividend paid and buy back, net of tax	-	-	-	-	(0)	**(0)**
Hive down banking sector	-	-	(273)	34	239	-
Balance at 31 December 2020	**214**	**887**	**-**	**7,045**	**(12,915)**	**(4,769)**

As at 31 December 2020, other reserves mainly comprise: (a) € 5,579 million, pursuant to the corporate law in force (currently article 31 of Law 4548/2018), which can be only either capitalized or offset against losses carried forward (2019: € 5,579 million), and (b) € 1,126 million, also pursuant to the corporate law in force (currently article 35 of Law 4548/2018), which is not distributable, but it can be either capitalized or offset against losses carried forward to the extent that these losses cannot be covered by designated reserves or other company funds for which loss absorption is provided in the corporate law (2019: € 1,126 million).

Statutory reserves, are not distributable, while non-taxed reserves are taxed when distributed.

Dividends

Based on the 2020 accounts, pursuant to the Company Law 4548/2018, the distribution of dividends is not permitted. Furthermore, under the provisions of the Tripartite Relationship Agreement between Eurobank Holdings, the Bank and the HFSF (signed 23.3.2020) and article 10 par.3 of Law 3864/2010 for the "establishment of a Hellenic Financial Stability Fund", for as long the HFSF participates in the share capital of Eurobank Holdings, the amount of dividends that may be distributed to shareholders of either Eurobank Holdings or the Bank cannot exceed 35% of the profits as provided in article 161 par. 2 of Company Law 4548/2018.

20. Hybrid capital

In April 2019, the Board of Directors of ERB Hellas Funding decided to proceed with the redemption of all four series of the preferred securities issued. Accordingly, following a notice for redemption on 29 May, 21 June and 13 September 2019, series C, B and D preferred securities were redeemed on 9 July, 2 August and 29 October 2019, respectively.

On 23 January 2020, a notice for the redemption of the remaining preferred securities of series A was given to the holders and on 18 March 2020, the aforementioned notes of face value of € 1.6 million were redeemed. In addition, for the year ended 31 December 2020, ERB Hellas Funding Ltd declared and paid for Series A of preferred securities in accordance with its terms and following the redemption of the Greek State – owned preference shares (note 16) on 17 January 2018, the non-cumulative dividend of € 11 thousand.

21. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with original maturities of three months or less:

	31 December 2020 € million	31 December 2019 € million
Cash and balances with central banks (excluding mandatory and collateral deposits with central banks)	**-**	2,626
Due from credit institutions	**14**	146
Securities held for trading	-	1
Total	**14**	2,773

22. Post balance sheet events

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

Note 2.1 - Basis of preparation
Note 25 – Board of Directors

23. Related parties

On 20 March 2020, Eurobank Ergasias S.A. ("Demerged Entity") announced that its demerger through the banking sector's hive down and the establishment of a new company-credit institution ("Demerger") under the corporate name "Eurobank S.A." ("Bank") was approved, while on 23 March 2020 the Demerged Entity was renamed to "Eurobank Ergasias Services and Holdings S.A." ("Company" or "Eurobank Holdings") (note 4). Following the above, the key management personnel (KMP) of the Demerged Entity remained as the Bank's KMP. Furthermore, the Board of Directors (BoD) of Eurobank Holdings is the same as the BoD of the Bank and part of the KMP of the Bank provides services to Eurobank Holdings according to the terms of the relevant agreement between the two entities. As at 31 December 2020, the percentage of the Company's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) stands at 1.40%. The HFSF is considered to have significant influence over the Company pursuant to the provisions of the Law 3864/2010, as in force, the Relationship Framework Agreement (RFA) the Demerged Entity has entered into with the HFSF on 4 December 2015 and the Tripartite Relationship Framework Agreement (TRFA) between the Bank, the Company and the HFSF signed on 23 March 2020. Further information in respect of the HFSF rights based on the aforementioned framework is provided in the section "Report of the Directors and Corporate Governance Statement" of the Annual Financial Report for the year ended 31 December 2020.

In addition, as of December 2019, Fairfax Financial Holdings Limited has obtained the required regulatory approvals in relation to the increase of its shareholding in the Demerged Entity, which arose from the merger of the latter with Grivalia Properties REIC in the same year. Accordingly Fairfax group, which as at 31 December 2020 holds 31.27% in the Company's share capital, is considered to have significant influence over the Company. For the year ended 31 December 2020, the net income arising from the Company's activities with Fairfax group amounted to € 1.1 million. As at 31 December 2019, the Company's outstanding balances of the transactions with Fairfax group mainly refer to loans granted of € 0.02 million, deposits received of € 3.7 million and guarantees issued of € 0.4 million.

A number of transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. The outstanding balances of the transactions with: (a) the subsidiaries, (b) the key management personnel (KMP) and the entities controlled or jointly controlled by KMP and (c) the associates and joint ventures, as well as the relating income and expenses from continuing and discontinued operations are as follows:

	31 December 2020		
	Subsidiaries [2] € million	**KMP [1] and Entities controlled or jointly controlled by KMP € million**	**Associates and joint ventures € million**
Due from credit institutions	**14.39**	-	-
Investment securities	**941.85**	-	-
Other assets	**0.74**	-	-
Other liabilities	**0.37**	-	
Net interest income	**34.32**	-	**(1.10)**
Net banking fee and commission income	**(3.52)**	-	**4.02**
Net trading income	**0.50**	-	-
Other operating income/(expense) [4]	**1.41**	**(3.12)**	**(4.84)**
Other Impairment losses and provisions (note 13)	**(8.32)**	-	-
Impairment losses relating to loans and advances and collectors' fees	**(3.63)**	-	**(0.17)**

	31 December 2019		
	Subsidiaries € million	KMP [1] and Entities controlled or jointly controlled by KMP € million	Associates and joint ventures € million
Due from credit institutions [3]	752.25	-	-
Securities held for trading	0.62	-	-
Derivative financial instruments assets	19.24	-	-
Loans and advances to customers	1,435.85	6.16	11.60
Other assets	10.89	-	9.80
Due to credit institutions	3,432.26	-	-
Derivative financial instruments liabilities	2.03	-	-
Due to customers	294.24	13.86	46.83
Other liabilities	294.99	-	3.21
Guarantees issued	598.45	0.01	2.00
Guarantees received	-	0.03	-
Net interest income	(4.47)	0.01	(4.25)
Net banking fee and commission income	(0.59)	-	18.09
Dividend income	130.00	-	11.00
Net trading income	(0.47)	-	0.25
Other operating income/(expense) [4]	8.96	(7.61)	(22.81)
Other Impairment losses and provisions	(30.00)	-	-
Impairment losses relating to loans and advances and collectors' fees	(44.66)	-	(4.79)

[1] Includes the key management personnel of the Company and their close family members.

[2] Equity contributions and other transactions with subsidiaries are presented in note 14.

[3] Furthermore as of 31 December 2019, € 0.7 billion guarantees have been issued relating mainly to the lending activities of banking subsidiaries for which the equivalent pledged amount is included above in "Due from credit institutions"

[4] For the year ended 31 December 2020, the amount of € 3.12 million (2019: 7.61 million) relates to the services agreement with Grivalia Management Company S.A. for the management of the Company's real estate properties until the hive down date (note 4).

Key management compensation (directors and other key management personnel of the Company)

Following the completion of the banking sector's hive down of Eurobank Ergasias S.A., the Company recognizes KMP compensation referring mainly to KMP services provided by Eurobank S.A. in accordance with the relevant agreement. The Key management compensation for the year ended 31 December 2020 (mainly referring to the compensation of Eurobank Ergasias KMP for the pre hive down period) comprises short-term employee benefits of € 1.51 million (2019: € 6.42 million), long-term employee benefits of € 0.24 million (2019: € 1.01 million), while the cost recognized in the income statement relating to the defined benefit obligation for the KMP amounts to € 0.02 million (2019: € 0.29 million cost through the income statement and € 0.17 million actuarial loss through the other comprehensive income).

24. External Auditors

The Company has adopted a Policy on External Auditors' Independence which provides amongst others, for the definition of the permitted and non-permitted services the Company's auditors may provide further to the statutory audit. For any such services to be assigned to the Company's auditors there are specific controlling mechanisms in order for the Company's Audit Committee to ensure there is proper balance between audit and non-audit work.

The total fees of the Company's independent auditor "KPMG Certified Auditors" for audit and other services provided are analyzed as follows:

	2020 **€ million**	2019 € million
Statutory audit [1]	**(0.2)**	(1.1)
Tax certificate	**(0.0)**	(0.2)
Other audit related assignments	**(0.4)**	(0.3)
Non audit assignments	**-**	(0.1)
Total	**(0.6)**	(1.7)

[1] Includes fees for statutory audit of the Company's annual financial statements.

It is noted that there are no non-audit assignment fees of "KPMG Certified Auditors A.E." Greece, statutory auditor of the Company.

25. Board of Directors

The Board of Directors (BoD) was elected by the Annual General Meeting (AGM) of the Shareholders held on 10 July 2018 for a three years term of office that will expire on 10 July 2021, prolonged until the end of the period the AGM for the year 2021 will take place.

Further to that:

- Mr. Theodoros Kalantonis, submitted his resignation, effective as of 3 April 2020.
- The BoD by its decision dated 8 April 2020, appointed Ms. Alice Gregoriadi and Ms. Irene Rouvitha Panou as their new independent non-executive members, in replacement of the resigned independent non-executive members Mr. Richard Boucher and Mr. Nikolaos Bertsos, their resignations being effective as of 8 April 2020, and their term of office will expire concurrently with the term of office of the other members of the BoD.
- Mr. George Myhal, submitted his resignation, effective as of 10 December 2020. The BoD by its decision the same date appointed Ms. Cinzia Basile as new independent Non-Executive Director, in replacement of the resigned independent non-executive member Mr. George Myhal for an equal term to the remaining term of the resigned member.
- The BoD by its decision dated 10 December 2020 appointed Mr. Andreas Athanasopoulos as new executive Director in replacement of the resigned executive Director Mr. Theodoros Kalantonis for an equal term to the remaining term of the resigned member.
- The BoD by its decision dated 28 January 2021, appointed Ms Efthymia Deli as the new representative of the HFSF and non-executive member of Eurobank Holdings BoD in replacement of the departing Mr. Dimitrios Miskou, according to the provisions of Law 3864/2010 and the existing Relationship Framework Agreement with the HFSF (TRFA), for an equal term to the remaining term of the resigned member.

Following the above, the BoD is as follows:

G. Zanias	Chairman, Non-Executive
G. Chryssikos	Vice Chairman, Non-Executive
F. Karavias	Chief Executive Officer
S. Ioannou	Deputy Chief Executive Officer
K. Vassiliou	Deputy Chief Executive Officer
A. Athanasopoulos	Deputy Chief Executive Officer
B.P. Martin	Non-Executive Independent
A. Gregoriadi	Non-Executive Independent
I. Rouvitha- Panou	Non-Executive Independent
R. Kakar	Non-Executive Independent
J. Mirza	Non-Executive Independent
C. Basile	Non-Executive Independent
E. Deli	Non-Executive (HFSF representative under Law 3864/2010)

Athens, 12 April 2021

Georgios P. Zanias	**Fokion C. Karavias**	**Harris V. Kokologiannis**
I.D. No AI - 414343	I.D. No AI - 677962	I.D. No AN - 582334
CHAIRMAN	CHIEF EXECUTIVE OFFICER	GENERAL MANAGER OF GROUP FINANCE
OF THE BOARD OF DIRECTORS		GROUP CHIEF FINANCIAL OFFICER