AEGEAN BALTIC BANK S.A

Annual Financial Report

31 December 2018

July 2019

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Board of Directors' Annual Management Report
for the Financial Year 2018

Dear Shareholders,

We hereby submit for approval the Financial Statements and the Annual Report of the Board of Directors of Aegean Baltic Bank S.A. (hereinafter "ABBank" or the "Bank") for the year ended 31 December 2018, prepared in accordance with the International Financial Reporting Standards, as adopted by the EU.

ABBank is a Greek banking institution, specializing in the provision of corporate banking, ancillary, treasury and advisory financial products and services to business enterprises especially of the shipping sector. ABBank operates through its head office at Maroussi, Athens, Greece and two branches located in Piraeus and Glyfada. The Bank does not maintain other offices, branches, subsidiary or affiliated companies in Greece or abroad.

Overview

In 2018 global economic activity remained strong with GDP growing by 3.7% YoY, from 3.8% the year prior. Growth decelerated in the second half of the year, as result of rising international trade tensions, and economic performance was divergent among geographic regions and economic sectors. Industrial production increased at lower rates; +2.2% in the OECD countries and +6.3% in China (2017: +2.8% and +6.5%, respectively). World trade growth also softened to 4.0% YoY from 4.8% last year. In the shipping markets, the improvement evidenced in earnings and ship values of the dry bulk and containership sectors since H2-2016 persisted through 2018 for the bulkers, and until mid-year for the containerships. Crude oil and products tankers performance continued their long lasted downward trajectory until Q3-2018, recovering sharply thereafter. In the financial markets, volatility was high within an overall downward path. Equity prices recorded losses in the major stock markets while long-term sovereign bond yields tightened in the USA but softened in Europe, as rising uncertainties encouraged risk aversion.

The main macroeconomic and fiscal indicators of Greece improved further in 2018 and, in conjunction with the official conclusion of the 3rd Economic Adjustment Program in August 2018, economic sentiment improved significantly. GDP marked a 1.9% YoY growth, from 1.4% in 2017, marking the strongest rate of the last twelve years. Unemployment fell to 18% in December 2018. The Primary Surplus target set under the Program was once more over-performed, standing at 4.0% of GDP (2017: 4.1%, 2016: 3.8%). In the Greek banking sector, deleveraging continued. Private credit declined by 1.1% YoY (2017: -0.8% YoY) as the 0.2% YoY increase of business credit (2017: +0.4%) was not enough to outweigh the 2.2% decrease of households' credit (2017: -2.3%). Non-Performing Exposures (NPEs) contracted by ca. 10% YoY, the stock of NPEs still remaining at particularly high levels though (ca. 45% of total loans). The banking system's liquidity proportions improved materially, as private sector deposits increased by 6.2% YoY and the funds drawn from the Emergency Liquidity Assistance (ELA) minimized to €0.8 billion as of December 2018.

In 2018 ABBank enhanced further its liquidity, reversed the deleveraging mode followed in the previous three years and returned into profitability after two loss-making years. Total Assets growth of 14% YoY was primarily a result of a 13% YoY credit expansion and a 22% YoY increase of liquidity placements in the interbank market. Liquid liabilities increased by 23% YoY, with the customers' deposit balances and interbank borrowings growing annually by 12% and 128%, respectively. The ratio of Non-Performing Exposures (NPEs) over Total Loans declined to 16% from 22% in 2017. Total Operating Income increased by 9% YoY against a 6% rise of Operating Expenses, producing a marginally positive net operating income before impairments and tax (2017: €0.29 million operating loss). Registering a €0.58 million positive amount of annual impairment for loans and Investment Securities at FVTOCI (due to a loan and corresponding provision write offs) and a €0.20 million Income Tax expense, a €0.39 million Net Profit was formed for 2018 (2017: €0.96 million Net Loss). The CET1 ratio remained at high levels, of 38.2% on 31.12.2018, whereas in February 2019 Standard and Poor's assigned to the Bank a credit rating of B/B (long-term/short-term) with Stable Outlook, the highest rating among Greek banks.

Economic and Financial Environment

Global developments

In 2018 global GDP growth enhanced by 3.7% YoY, a rate as strong as that of 2017 (3.8%). In the first part of the year, economic performance was benefitted by the momentum of last year, loosing pace in the second half, due to the economic and political uncertainties triggered by the rising tension in the trade relationship of the USA and China as well as Europe. Adjustments in monetary and fiscal policies of major advanced economies resulted in uneven growth rates among them and, in certain cases, increased political risks. Soaring uncertainties fueled downward volatility in the financial markets, risk aversion finally prevailing among investors. Industrial production increased by 4.2% YoY in the USA (2017: 2.0% YoY), but at much smaller scale in other OECD members. Germany experienced a 1.1% YoY growth, from 3.5% YoY in 2017, the UK 0.8% from 1.4%, respectively and Japan 1.5% from 4.7%. In Asia, the Chinese industrial production grew by 6.3% YoY in 2018, from 6.5% YoY in 2017 and the S. Korean by 0.2% from 0.8%, whereas India's production strengthened by 5.0% YoY, in comparison to 3.0% in 2017. Annual growth of global trade of goods and services remained in the "strong" territory of 4.0%. Nevertheless, the momentum of 2017 (+5.3% YoY) weakened, reflecting the H2-2018 slowing trade pattern.

In the Eurozone, GDP growth in 2018 was constrained to 1.8% YoY from 2.4% YoY the previous year. Economic performance was affected by sectoral uncertainties in Germany's heavy industry and political tensions with regard to other large European economies, such as France and Italy, although domestic demand remained strong, bank credit conditions improved and employment rates increased. ECB's monetary policy remained almost unchanged, with the benchmark interest rate at 0.0% and the deposit rate at -0.4%, whereas the declared completion of the Assets Purchase Program by December 2018, was duly performed. In the USA 2018 economic performance was benefitted by tax reforms, higher government spending and improved labor market conditions, which enhanced confidence and supported domestic demand. The US Federal Reserve continued supporting the gradual departure from its long-served quantitative easing policy. Its policy interest rates increased during the year by another 0.75% in total, to the level of 2.25%, and its assets/investments downsizing program, through lower amounts of reinvestments, was implemented. Japanese economic growth deceleration mainly reflects the impact of natural disasters on economic activity, whereas China's rather mild deceleration is attributed to the strained trade conditions and proclaimed "tariffs war" with the USA.

For 2019, risks prevail in the outlook for world economic growth and global trade and a softer economic performance is expected. Further to the risks encountered by the larger economies, the challenges faced by certain developing economies, such as Turkey, Argentina and Brazil bring expectations for the world's GDP and trade growth of 2019 at levels similar or mildly below those of 2018. Lower oil prices and resolution of trade tensions would reduce uncertainties, improve investors' confidence and operate in favor of the upside. No material shifts are expected for 2019 from ECB's declared monetary policy, whereas the FED announced in January 2019 a "wait and see" approach as to further policy changes, implying also the possibility of terminating earlier its balance sheet scaling down program. Expectations are more positive for 2020 for global economic and international trade performance (IMF World Economic Outlook Update, Q1- 2019) as major outstanding issues which currently enhance the risk profile of economic activity (e.g. trade tensions, terms of Brexit etc.), should have been resolved.

The Greek Economy and the Greek Financial Environment

In 2018 the GDP of Greece marked a growth of 1.9% YoY - the best growth rate since 2007 and only the third time, since the emergence of the Greek crisis, that economic performance accelerated (after 2017 with +1.4% and 2014 with +0.7%). The positive economic record of 2018 also includes a GDP General Government Primary Surplus of 4% of GDP, an upgrade of the country's sovereign credit rating, the successful issuance in Q1-2018 of a new €3 billion seven-year bond and an €1 billion 12-month Treasury Bill, as well as the official conclusion, in August 2018 of the 3rd Economic Adjustment Program.

Exports of goods and services increased by 8.8% YoY in 2018, having as main contributors, once again, the services component, in particular tourism and transportation. Exports performance outweighed the rise of total imports by 2.9% YoY, which led to the widening of the trade balance deficit by €2.1 billion. Unemployment fell further at 18% in December 2018 from 20.8% in December 2017. Private consumption expanded steadily by 1.0% YoY (2017: +0.9%) demonstrating improving consumer confidence and spending. Moreover, a revival was observed in real estate market transactions, both residential and commercial, reflected also in houses price increases of 1.5% YoY – the strongest rate of the last eleven years. On the other hand, GDP growth was constrained from a 12% YoY decline in investment spending, mainly associated with the stock of unfinished non-residential construction projects completed in 2017 and not succeeded by new ones in 2018.

On the fiscal front, the Government Primary Surplus stood at 4.0% of GDP (2017: 4.1%), outperforming for a fourth consecutive year the targets set in the 3rd Program. Revenue growth was the prime contributor to the surplus. Public revenue has been assisted by the high taxation rates set on income and consumption as well as the broadening of the tax base through the enhancement of electronic transactions following the imposition of capital controls and the exclusion of certain geographical zones of the country from the lower VAT rates previously applicable. The containment, once again, of the Public Investment Program also contributed to the overall primary result.

The Greek banking system strengthened further in 2018. Although profitability was lower than 2017 and deleveraging continued, the liquidity proportions improved significantly, NPEs declined by ca. 10% YoY and the four systemic Greek banks successfully passed the EU-wide stress testing exercise conducted by SSM/ECB in Q1-2018. According to the annual report of the Governor of the Bank of Greece, capital adequacy remained firm, with the average Capital Adequacy Ratio of Greek banks standing above 16%. Positive economic performance and improved economic sentiment strengthened the confidence of depositors, resulting in 6.2% higher private sector deposits and in 10% rise of total deposits (i.e. private and public sector/Government deposits). Greek banks' reliance to the Eurosystem declined by €22.6 billion YoY, to €11.1 billion as of 31.12.2018 and ELA drawings reduced to €0.9 billion thereof. At the same time deleveraging persisted, as private credit declined by 1.1% YoY (2017: -0.8% YoY), mainly driven by a 2.2% YoY decrease of households' credit (2017: -2.3%) which was partially offset by a small increase of 0.2% YoY of business credit, for a second consecutive year (2017: +0.4%). Reduction of the NPE balances amounted to €9.7 billion during 2018, €4.4 billion thereof attributed to write-offs and €5.2 billion to loan sales. Nevertheless, the stock of NPEs remains at particularly high levels, at ca. 45% of total loans, with the continuing deleveraging trend not assisting to the ratio's improvement. Capital controls still remain, for a fourth consecutive year, although substantially relaxed.

In August 2018, Greece officially concluded successfully and exited the 3rd Economic Adjustment Program. The repetitive outperformance against the fiscal targets set and the satisfactory implementation of the economic reforms included in the Program, were pivotal for the successful conclusion. Other positive developments that took place earlier in 2018 comprised (i) the Greek sovereign credit rating upgrade, twice, by international credit rating agencies and the successful issue by the Hellenic Republic of a new €3 billion seven-year bond and an €1 billion 12-month Treasury Bill (the first such issuance since 2010). The Program's conclusion was combined with Greece agreeing with the European institutions an "Enhanced Surveillance Framework", whereby the country's fiscal and economic developments will be closely monitored, together with progress on the continuing implementation of structural reforms. The agreement also includes softer repayment terms and interest rates in relation to the facilities provided by EFSF, Greece's commitment towards 3.5% of GDP annual primary surpluses until 2022, the abolition of the step-up interest rate margin of the debt buy-back part of the 2nd Program and the return of the profits of Central Banks from their Greek bond holdings. Finally, the conclusion of the 3rd Program was accompanied by specific measures in order cover the financing needs of Greece for the next two years, and included the formation of a "cash buffer" in favor of which €11.0 billion initially available under the Program which remained unused were contributed by the European institutions. By the end of 2018 the "cash buffer" amounted to ca. €30.0 billion, having been further enhanced by the proceeds of Government debt issuances and budget surpluses.

The outlook of the Greek economy for 2019 is positive, provided that the momentum for economic reforms is maintained and deviations from the future fiscal targets and commitments are not material. According to the estimates of the Eurogroup and the IMF, GDP growth for 2019 is calculated to exceed 2.0% and the agreed primary surplus target of 3.5% of GDP to be met, if not outperformed once more. Particular emphasis is required in the effort to significantly reduce NPEs over the coming 3-year period, for credit conditions for households and business to improve and economic development to be financed. Downside risks stem from material deviations from the path of economic and fiscal policies agreed under the Program, which may be attempted by the current or a new government, given that 2019 is a national elections year, as well as from the impact to economic performance and confidence of regional political tensions, the growth slowdown in the Eurozone and it's their effect to tourism.

Developments in Shipping and Shipping Finance

Shipping Markets

In 2018, seaborne trade volumes increased by ca. 3.0% (2017: 3.9%), while forecasts for 2019 suggest a mildly softer growth, impacted by the tensions in international trade prevailing since the second half of 2018. Dry bulk trade grew by 2.0 % in 2018 (2017: 3.7%) and Container trade expanded by 5.0% (2017: 5.4%), mainly due to strong performance during the year's first half. Growth in the oil trades, crude and products, slowed further in 2018 to an estimated 1.0% (2017: 2.6%). On the supply side, the tanker fleet grew by 1.5% YoY (2017: 4.8%), while the dry bulk and containership fleets increased by 3.0% and 5.0%, following growth in 2017 of 3.3% and 3.8% respectively. Newbuilding prices for all ship types increased by 1%-3% YoY and the orderbook of the core ship types enhanced by 5% on average.

Earnings of the two tanker sectors followed a downward trajectory in the first 9 months of 2018, increasing sharply in the last quarter. The Q4-2018 improvement "corrected" the earnings annual average to bring it only 3.5% below that of 2017. In the bulk carriers sector, the improvement experienced in 2017 over 2016, continued through 2018, so as to raise the annual average some 12% above the 2017 average. Containerships yearly earnings stood in 2018 some 28% above the 2017 average. Nevertheless, having followed a bell-shaped pattern, moving downwards in the second half of the year, in December 2018 landed ca. 4% below those of a year ago. Overall, earnings performance entered the profitability domain for tankers in the latter part of 2018. Profitability for the bulk carriers remained stable at satisfactory levels, whereas containerships, having struggled for many years with loss-making charter rates, in 2018 experienced a six-month recovery, raising doubts about its sustainability.

In 2018 secondhand ship sale and purchase transactions stood ca. 5% lower than in 2017, in terms of volume and value. With regards to individual asset values, in the bulk carriers sector the value of, indicatively, a 10-year old Panamax improved by less than 5% YoY. The price of a 10-year old Aframax Crude Oil Tanker which stood at end-2017 at similar levels to that of a year earlier (ca. USD 20 mil), at end-2018 had increased by some 10% (USD 22 mil). Products Tanker values remained relatively stable throughout 2018 and by the end of the year a 3% YoY improvement was observed (e.g. 10-year old MR1 tanker). Finally, in December 2018 the value of a 10-year old sub-panamax containership (2,900 TEU) of ca. USD 13.8 mil, was 10% higher than one year ago (USD 11.5 mil).
The outlook of crude oil and product tankers is positively assessed by the market for 2019 and onwards, with the exception of large crude carriers. Although the Q4-2018 spike is expected to adjust in 2019 downwards, such levels provide marginal profitability or break-even income for the Crude Oil segments and modest profitability for the Product Tankers. Bulk carrier earnings are expected in 2019 to experience a soft downturn, remaining though well within the profitable territory Downward volatility is seen to prevail for the Containerships in 2019, entering a stable upward path from 2020 onwards.

Shipping Finance

At the end of 2018 shipping finance to Greek ship owners was estimated by Petrofin Bank Research (18th Annual Petrofin Bank Research, May 2019) to USD 53.2 billion, provided by ca. 50 banks, thereof only 5 being Greek banks. As of 2018, two Cypriot banks had entered the market as well. According to the same study, the size of the 2018 Greek shipping portfolio marked a 1.5% decrease from the previous year (USD 54.0 billion).

It is of note that the aforesaid 5 Greek banks accounted for only 18.4% (USD 9.8 billion.) of the 2018 total Greek shipping finance portfolio. Foreign banks with a Greek presence (branch or representative office) accounted for 34.6% (USD 25.0 billion.) and foreign banks without any Greek presence for the remaining 47.0% (USD 23.4 billion.), thus evidencing the international scope of the Greek ship financing industry. With regard to the foreign banks, it is observed that in 2018 the market share of the foreign banks with a Greek presence decreased by approximately 5% in comparison to 2017, a share largely gained by the foreign banks without any Greek presence.

Since 2010 the share of Greek banks in the total portfolio has gradually decreased, accounting for 24.0 % in 2010 (with some 10 Greek banks at the time), 17.1% in 2013 and 14.6% in 2015. The reduction demonstrates that, despite the capitalization pressures faced by the European banking sector, the stress of Greek banks has certainly been stronger and the consolidation of the Greek banking system has also led to reducing exposures to shipping. 2017 was the year that saw the reactivation of the Greek systemic banks in shipping finance, following a nearly three year hiatus. In 2018 Greek banks demonstrated stronger ship-financing activity, their total shipping exposure increasing by ca. 8% YoY, from $9.1 billion to $9.8 billion, thus reestablishing their market share at ca. 18.5%.

On the global scene, 2017 and 2018 saw major European banks, the traditional source of the majority of shipping finance, reducing their exposure to the sector, further European bank and loan book sales processes being announced or executed and new providers, including banks, emerging, albeit with more limited capacity. The most important, global, ship finance providers are still caught in the complex web of enhanced and anticipated regulatory requirements and pressure to resolve their legacy portfolios. It is of note that the aforementioned group of foreign banks without a Greek presence financing Greek shipping includes a number of credit funds and similar financiers who, apparently, increased their market share at the expense of foreign banks with a Greek presence.

ABBank Financial Results

During 2018, ABBank enhanced further its liquidity proportions, reversed the deleveraging mode followed since 2015 and returned into profitability after two loss-making years. Total Assets marked a 14.0% YoY growth, reflecting a 22.2% increase of the balances Due from Banks and a 13.5% credit expansion, while the NPEs declined to 16.2% of total gross loans from 22.4% in 2017. On balance, the amounts Due to Customers increased annually by 11.7% and those Due to Banks by more than twice. Net Profit amounted to €0.39 million (2017: €0.96 million Net Loss), given a 9.1% annual increase of Total Operating Income against a 5.6% higher Operating Expenses and a €0.58 million annual reduction of credit loss provisions. As at 31.12.2018 the CET1 Capital Ratio of the Bank stood at 38.2% (2017: 41.4%, post IFRS9 adjustment, on a fully loaded basis) and the regulatory liquidity ratios, the LCR and the NSFR, at 181% and 114%, respectively (2017: 246% and 120%, respectively), all three remaining at particularly strong levels.

Statement of Financial Position

The table below illustrates the Bank's Balance Sheet in an abridged form and the annual changes between 2018 and 2017 of the main asset and liability classes:

Balance Sheet (abridged)	31/12/2018 € million	31/12/2017 € million	%
Cash and balances with Banks	70.1	58.8	*+19.2%*
Loans (Net)	156.3	137.7	*+13.5%*
Marketable Securities (at FV through OCI and P&L)	28.2	25.3	*+11.4%*
Other Assets	16.3	15.2	*+7.2%*
Total Assets	**271.1**	**237.9**	***+14.0%***
Due to banks	32.3	14.2	*+127.8%*
Due to customers	145.8	130.6	*+11.7%*
Other liabilities	3.6	3.0	*+18.6%*
Total Liabilities	181.7	147.8	*+23.0%*
Total Equity	89.4	90.1	*- 0.8%*
Total Liabilities and Equity	**271.1**	**237.9**	***+14.0%***

On 31.12.2018 the Bank's Total Assets stood at €271.1 million, having increased by €33.2 million or 14% YoY (2017: €237.9 million). Total Assets growth reflects two-digit percentage increases in all major asset classes of the Bank.

Liquidity placements in the Central Bank and the Interbank Market presented a 19.2% YoY increase, from €58.8 million on 31.12.2017 to €70.1 million, whereas the Bank's investments in Marketable Securities rose by 11.4% annually or by €2.9 mil. Approximately €24.5 million of the Marketable Securities amount comprised Government Bonds of North European Governments (2017: €22.0 mil).

The portfolio of Loans and Advances to Customers increased to €156.3 million (2017: €137.7 million) i.e. by €18.7 million or 13.5% YoY. This was the net result of new loans granted in the amount of $67.9 million and €6.7 million along with repayments of existing loans, of $ 60.0 million and € 1.5 million respectively. In real currency terms, if the EUR/USD FX effect was not taken into account in the USD-denominated loans, the degree of expansion would have been ca. 8.7% as the USD-denominated loans comprised 89% of total loans as of year-end 2018 (91% in 2017) and had grown by 5% YoY, whereas the EUR-denominated loans increased by 40% YoY. Thus, some 36% of the total portfolio's EUR-value increase (pre-provisions) in the Balance Sheet is attributable to the 4.5% YoY stronger USD/EUR foreign exchange rate.

It should be mentioned that since the second half of 2018, ABBank commenced a diversification into non-shipping, Greek corporate banking. The focus is on mid-sized companies with exporting orientation, although other domestic business sectors and commercial real estate are also considered on a selective basis. As of 31.12.2018, the Bank's balances of Loans and Advances to Customers included €6.9 million of such non-shipping loans.

On the Liabilities side, Customers' Deposit balances at the end of year 2018 stood at €145.8 million recording 11.7% increase in comparison with the €130.6 million at 31.12.2017. USD-denominated deposits presented a marginal growth of 1%, thus the bulk of the annual improvement is attributed to the EUR-denominated deposit balances.

The yearly development in the balances of loans and deposits outlined above, led to a minor increase of the Loans to Deposits Ratio from 105% in 2017 to 107% in 2018.

In 2018 the Bank's access to the local interbank market further improved, so that by the end of the year the Due to Banks balances to amount €32.3 million, from €14.2 million the year before (+128%). Such increase incorporates a reduction, from €10.0 million to €5.0 million, of the financing obtained through ECB's MTROs and an almost equivalent increase of secured financing from the interbank market through bond repos (€4.9 million). Moreover, as of 31.12.2018 the Bank had drawn €10.0 million from a committed line provided by a regional development bank. Otherwise, the free unsecured interbank borrowings increased by €8.2 million YoY, to €12.4 million (2017: €4.2 million).

As at 31.12.2018 the supervisory Liquidity Coverage Ratio ("LCR") of ABBank exceeded the required minimum level (100% as of 1.1.2018) standing at 181% (2017:246%), whereas the Net Stable Funding Ratio ("NSFR") stood at 114% (2017: 120%).

With regards to the qualitative aspects of the Bank's loans portfolio, as at 31.12.2018 total Non-Performing Exposures amounted to €26.5 mil, or 16.2% of total gross loans (2017: €32.7 mil and 22.4%, respectively). Thereof, the Loans Past Due for 90+ days and/or Denounced amounted €16.6 million (2017: € 20.3 million), representing 10.2% of the Bank's total gross loan balances (2017: 13.9%). The yearly decrease of €6.2 mil (-19% YoY), incorporates: (i) a €2.2 mil write-off connected to the restructuring of a particular NPE; (ii) the repayment in full of loan Past Due for 90+ days of €3.9 mil as of 31.12.2017; (iii) €0.4 mil of orderly repayments in relation to two loans restructured/forborne as of 31.12.2017, as per their restructuring terms; (iv) a €0.2 mil reduction of a Denounced exposure, from the liquidation of part of such loan's collateral; and (v) a €0.4 mil increase in the exposure of another Denounced exposure, as a result of additional legal and other costs borne by the Bank as well as adverse FX fluctuation (USD exposure). It is of note that, during 2018, no performing loan was transferred to the NPEs category or vice versa, and no loans reclassifications within the NPE categories took place.

As of 31.12.2018, the cumulative provisions in the Bank's Balance Sheet amounted to €7.8 mil, having fallen by €2.1 mil YoY, from €9.8 mil as at 1.1.2018 (as per IFRS9). The 2018 downward movement was mainly the result of a €1.5 mil provision write-off, due to a €2.2 mil provision write-off from an equal, fully provided, write-off of a loan restructured in the summer of 2018, as reduced by €0.7 mil worth of NYSE-listed company stock the Borrower granted to its Lenders, as an inducement to participate in the restructuring. The final amount of cumulative provisions also includes €2.9 mil of reversals of previously calculated provisions and €2.3 mil of new provisions. As a result, the FY-2018 balance of provisions covered by 4.7% Total Gross Loans (2017: 6.7%), with a 27% provisions coverage for the total NPEs (2017: 26%) and 39% for the 90+ Days Past Due & Denounced Exposures component (2017: 24%).

Income statement

For the FY-2018 the Bank recorded a Net Profit of €0.4 million, following a Net Loss of €1.0 million in the previous year. Notably, the financial years 2017 and 2016 were the only two loss-making ones for ABBank since 2004, including FY-2011 at a pre-PSI impact level. The main figures of the Bank's Income Statement for FY-2018 and FY-2018 and annual changes thereof, are presented in a tabular abridged form here below:

Income Statement (abridged)	**FY-2018 € million**	**FY-2017 € million**	**%**
Net Interest income	9.3	8.2	*+12.8%*
Net fee and commission	2.0	2.0	*-3.6%*
Net result from derivatives and investment securities	(1.5)	(1.4)	*+12.0%*
Total operating income	**9.7**	**8.9**	***+9.1%***
Personnel expenses	(5.9)	(5.9)	*-0.7%*
General administrative expenses	(3.1)	(2.7)	*+17.7%*
Depreciation and amortization charges	(0.7)	(0.6)	*+15.5%*
Total operating expenses	**(9.7)**	**(9.2)**	***+5.6%***
ECL provisions	0.6	(1.1)	*-156.5%*
Profit (Loss) Before Tax	**0.6**	**(1.3)**	***+144.7%***
Tax	(0.2)	0.4	*-151.4%*
Net profit/(loss) after tax	**0.4**	**(1.0)**	***+142.0%***

In FY-2018, Total Operating Income amounted to €9.7 million, showing an increase of 9.1%, compared to 2017 (€8.9 million) whereas Total Operating Expenses stood at also €9.7 million, having risen by 5.6% from last year (€9.2 million). Consequently, in 2018 the Bank marked an Operational (i.e. before provisions and tax) break-even, from a €0.3 million operating loss in 2017.

FY-2018 Net Interest Income (NII) amounted to €9.3 million (2017: €8.2 million), having increased by 12.8% YoY. Interest on loans was higher 8% (€0.8 million) mainly due to the extraordinary collection of €0.9 million interest in connection to an NPE. It is worth mentioning that, despite the significant rise (12.6%) of gross loans at year-end 2018, in terms of annual average balances, the 2018 amount stood some €20 million or 11% lower than the 2017 average (€151 million versus €171 million in 2017). Interest income received from interbank placements and Marketable Securities, increased significantly, by €0.8 million or 328% YoY, mainly due to the €60 million higher average balances of 2018. Overall, the FY-2018 amount of annual average Total Assets was €40.0 million higher to that of FY-2017. Gross Interest Income on Assets of FY-2018 stood at 4.33% i.e. marginally below that of FY-2017 (4.39%).

Interest expense on Customer Deposits rose by €0.4 million or 36% YoY, due to €38 million higher average deposit balances in 2018, whereas the average interest rate cost for deposits remained at the same level, of 1.1%. Interbank borrowing interest expense was €0.3 million, 60% up than the year before, due to the increased use of the committed credit line from a regional development bank. Average annual balances of 2018 stood 30% above the 2017 ones, which also raised the average interest cost of total interbank borrowings by 0.40%, to 1.9% from 1.5% in 2017. In combination with the developments in Interest Income mentioned above, the Net Interest Margin (NIM) of the Bank declined by 0.17%, from 3.75% in FY-2017 to 3.58% in FY-2018.

Net fee and commission income remained at the same level at € 2.0 million (-3.6% year-on-year) mainly due to increased commissions expenses for correspondents as well as the committed interbank credit line. Gross commissions income presented a marginal increase, as higher commissions for new loans were offset by lower commission income from the restructuring of loans, whereas commissions for Funds Transfers increased by 6% YoY.

The net result from the Bank's transactions in derivatives and the securities portfolios amounted to a €1.5 million loss in 2018, against a €1.4 million loss in 2017. This loss is primarily attributed to the cost of FX derivative transactions (FX swaps and futures entered into by the Bank in order to hedge its foreign exchange position in US Dollars) which stood at €1.1 million in 2018 (2017: €1.6 million) and, secondarily, to the hedging cost of the Government Bonds portfolio through relevant futures, which amounted €0.7 million (2017: €0.1 mil). Moreover, in FY-2018 the Bank incurred a €0.4 million valuation loss from a NYSE-listed stock holding obtained as part of the restructuring of a loan. On balance, the profit from FX transactions with customers amounted to €0.3 million in 2018, same to the previous year and the profit from Bonds (trading and valuation) to €0.4 million (2017: €50 thousand).

Should the abovementioned cost of the Bank's FX hedging requirement of its FX liquidity gap was included in the Bank's Net Interest Income (NII), the Net Interest Margin would stand at 3.17% for 2018, compared to 3.01% for last year, hence in 2018 ABBank's "Effective" NIM improved by 0.16%.

Total Operating Expenses (prior to the annual provision for loans impairment loss) amounted to €9.7 million in 2018, marking a 5.6% YoY increase (2017: €9.2 million).
Personnel Expenses stood at €5.9 million, at the same level with the previous year. The increase in the average number of full-time employees by 3 persons compared to the previous year, combined with extra remuneration of €0.13 million had an upward impact on this category of expenses, equivalent to the extraordinary expense of €0.38 million for the termination of employment of some of its employees paid in the previous year. At the end of 2018, the total number of employees of the Bank increased to 82, from 81 in 31.12.2017.

General and Administrative Expenses stood 17.7% higher (€0.5 million) in 2018. The largest contributing to the increase cost items are related to the higher BoD Remuneration Cost, due to the introduction of employers' contributions and payment of fees to all the BoD members and the year-round in 2018 (half-year in 2017) costs paid to VISA following the launching of the ABBank Visa Debit Card in mid-2017.

In FY-2018 an €0.58 million annual provision gain was accounted for the impairment of Loans and Advances to Customers (2017: -€1.06 mil as per IAS 39). Pivotal to the formation of said gain was a provision write-off connected to the restructuring of a loan which, together with the value of the NYSE-listed stock noted above granted to the Bank in connection with the same restructuring, resulted in a €1.5 million reversal of provisions. Excluding the effect of such write offs and the resulting reversals, the net additional impairment charge for credit losses amounted to €0.9 million, including €13 thousand of Expected Credit Loss calculated for the Marketable Securities at Fair Value through Other Comprehensive Income portfolio.

Impact from the first time adoption of International Financial Reporting Standard (IFRS) 9 on Shareholders' Equity as of 1 January 2018

As of 1 January 2018, IFRS 9 "Financial Instruments" replaced the International Accounting Standard IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial instruments and the impairment of financial assets.

The IFRS 9 transition impact before tax as at 1 January 2018 on the Financial Statements of ABBank was estimated at €1.6 million of incremental impairment allowance for loan losses which on a net, after tax, basis is calculated to reduce the Shareholders' Equity of the Bank by €1.1 million as of the above date.

ABBank has not adopted the regulatory transitional arrangements published by the EU (No 2017/2395) in December 2017, amending the regulation (EU) 575/2013 with the insertion of article 473a. Consequently, if the additional loan loss provisions calculated under IFRS 9 were taken into account on a fully loaded basis, the effect in the Bank's CET1 Ratio would be 0.21%, reducing such from 41.62% to 41.41% as of 1.1.2018.

Shareholders' Equity and Capital Adequacy

As at 31.12.2018, the accounting book value of the Bank's Shareholders' Equity increased to €89.4 million, from €89.0 million on 1.1.2018 (i.e IFRS9 basis), reflecting the effect of the FY-2018 Net Profit.

The regulatory Shareholders' Equity of ABBank consists exclusively of Common Equity Tier-1 Capital (CET1) and amounts to €86.8 million (1.1.2018: €87.0 million). In 2018 the Bank's total Risk Weighted Assets increased to €227.6 million, from €240.0 million as of 1.1.2018 (IFRS9 basis), mainly due to the Bank's loans portfolio growth. As a result, on 31.12.2018 the Bank's CET1 Ratio and Total Capital Adequacy Ratio was 38.16%, from 41.41% on 1.1.2018.

Details about Capital Adequacy and the calculation of the relevant ratios under both Pillar I and Pillar II of the banking regulatory framework are included in Note 4.7 of the Financial Statements.

Disclosures pursuant to Article 6 of Law 4374/2016

In the context of complying with the provisions of paragraph 4, Article 6 of Law 4374/2016 (Hellenic Government's Gazette A'50/1.4.2016) pertaining to the "Transparency in the relationship of credit institutions with media companies and sponsored persons or entities", ABBank is hereby disclosing information with regards to payments made to natural persons and/or legal entities in 2017. Specifically, during 2018 (a) no payments were effected for marketing, advertisement or promotion, in the context of paragraph 1, Article 6 of Law 4374/2016; and (b) the payments effected for donations, sponsorships or grants, in the context of paragraph 2, Article 6 of Law 4374/2016, were the following:

NAME	NET PAYMENT
HAMOGELO TOU PAIDIOU	150.00 €
HOLY DIOCESE OF NEA IONIA & PHILADELPHIA	1,218.98 €
ELPIDA ASSOCIATION OF FRIENDS OF CHILDREN WITH CANCER	150.00 €
HELLENIC RED CROSS	2,000.00 €
HOLY DIOCESE OF NEA IONIA & PHILADELPHIA	1,326.23 €
GRAND TOTAL	**4,845.21 €**

In compliance with the current legislative, tax and regulatory framework, with respect to the above payments the Bank paid in addition the amount of €330.88, in total, for VAT and other charges.

Risk Management

Being a financial institution active in a dynamically evolving economic environment, ABBank has ranked highly the timely recognition, the continued monitoring and the effective management of the banking risks it is exposed to, with the aim to maintain its capital adequacy at solid levels and to prudently balance risk with return for the Bank's shareholders.

A prime objective of the Bank is to comply with the standards of corporate governance and risk management set out by the at each time applicable regulatory and supervisory framework which governs the operation of the European banking sector, taking also into account the particular characteristics of ABBank's specialist activity, its organic and economic size and the relevant best practices.

Since 1st January 2014 the Directive 2013/26/EU (CRD IV) and the Regulation 575/2013 of the European Parliament and the European Council have been implemented, introducing to the European financial sector the new Basel III capital adequacy framework. Further to new criteria for the qualitative and quantitative adequacy of own capital, Basel III also includes new minimum standards for liquidity and leverage. Moreover, since November 2014, the Single Supervisory Mechanism (the "SSM") operates as the new system of financial supervision under the auspices of the ECB. The SSM supervises directly the "important" (or "systemic") financial institutions of the Eurozone, whereas it exercises indirect monitoring ("oversight") to the "less-important" (or "non-systemic") ones which are supervised directly by the local supervising authority (the Bank of Greece, in the case of Greek banks).

Pursuant to their new responsibilities, the ECB and the SSM conducts European Comprehensive Assessment Tests for the systemic banks, including Asset Quality Reviews and Stress Tests under various macroeconomic scenarios. As a non-systemic bank, the Bank has not participated in such pan-European assessments. ABBank had participated though in the two similar exercises which were conducted by the Bank of Greece (BoG), with the assistance of specialist external advisors (BlackRock), for all Greek banks and the relevant results were published by the BoG in Q1-2012 and Q1-2014, respectively. In both of those exercises ABBank was evaluated as a bank with sound capital solidity and was not required to take any measures towards the restructuring of its activities and the strengthening of its capital base.

Detailed information about the core risks borne by the Bank through its activities and financial exposures as of 31st December 2018 are provided in Note 4 of the Financial Statements, whereas Note 4.7 makes specific reference to the Bank's capital adequacy calculation under both, Pillar I and Pillar II of the Basel-III framework.

Credit Risk

Credit risk refers to the possibility of the Bank suffering losses as a result of the inability or unwillingness of its debtors to fully perform their obligations, pursuant to the contractually agreed terms and conditions. Credit risk is embedded in all financing transactions of the Bank, predominantly the lending activities, as well as in other banking activities that carry a risk of default by the Bank's counterparty, such as money market transactions, securities market transactions, derivative instrument transactions, as well as transactions involving clearing.

The Bank follows specific procedures which support the continuing monitoring, measurement and assessment of credit risk and has compiled and documented relevant risk management policies. Given that until recently the Bank's loans portfolio exclusively consisted of unrated (by External Credit Agencies) obligors of the shipping sector, ABBank has established and follows its own, ten-grade, credit risk assessment and rating system. The Bank has also developed internally a shipping credit rating interface between its ten-grade rating system and that of the object finance slotting criteria methodology of the IRB-Basic approach included in the current regulatory framework for credit risk. This model is used by the Bank's Risk Management Unit to back-test, validate and re-evaluate the credit ratings of the ten-grade risk methodology used internally, as well as for credit risk stress-testing purposes of its shipping loans portfolio.

The Bank's methodologies for the monitoring and assessment of credit risk primarily aim at promptly identifying and optimizing the management of expected and unexpected loss which could possibly be incurred. With the view to contribute in the Bank's best possible protection against such losses, credit operations include specific lending policies and criteria, involving the purpose and type of each financial facility, the formation of appropriate limits per obligor or group of obligors, limits of individual or sectoral concentrations, the use of credit risk containment techniques by obtaining security and guarantee covers, and the implementation of risk-related credit pricing in order to improve the use and yield of the corresponding capital requirements. The Bank's credit operations also involve the regular screening and review of credit procedures, with the purpose to improve the efficiency of the management of the whole credit function, as well as the independent assessment of the procedures of credit operations and credit risk management by the Internal Audit Unit. As of 2018 In the Bank's Credit Policy and Procedures have been enriched to also cover non-shipping corporate credits, including their risk analysis and assessment in accordance with the existing internal credit rating system.

The procedures of approving new credits and regularly reviewing and reassessing existing ones until their full repayment, are clearly set out and centralized, constituting an exclusive competence of the Credit Committee of performing credits. Moreover, pursuant to the Act of the Executive Committee of the Bank of Greece ("ECA/BoG") Nr. 42/2014 and the ECA/BoG Nr. 47/2015 regarding the Arrears and Non-Performing Loans, the Bank has established a relevant documented strategy and relevant policies and procedures which also comply with best practices in relation to such loans. Management of such Non-Performing Exposures is conducted by a specific, dedicated Unit of the Bank, whereas relevant credit approvals are under the exclusive competence of a separate credit committee, the ANPL Credit Committee,

For the calculation of capital requirements for credit risk, the Bank follows the Standardized Approach of the current supervisory framework.

Details on Credit Risk are included in Note 4.2 of the Financial Statements.

Liquidity Risk

Liquidity risk refers to the Bank's ability to maintain sufficient liquid resources for the coverage of scheduled or unexpected withdrawals of cash, the repayment of other obligations of the Bank and the funding of its loan and other commitments.

The specialized business nature of ABBank, its relatively small size within the Greek banking system and the disruptions observed during the last few years in the financial and interbank markets have set the liquidity risk as an area of top priority for close monitoring and attention.

The Bank's Risk Management Unit regularly performs stress tests for the Bank's liquidity, under mild and extreme volatility scenarios of both, idiosyncratic (company-specific) and systemic nature. The Risk Management Unit closely monitors customer deposits concentrations at individual or time zone level, depository behavioural trends of the Bank's clientele, as well as the evolution of the Bank's Loans to Deposits Ratio. Potential liquidity gaps and refinancing gaps are also analysed and the implementation of the liquidity management policy in relation to the enhancement of the funding sources and the availability of adequate amount of liquid assets, and assets eligible for liquidation or refinancing, are also closely monitored. Ongoing liquidity risk analysis, stress test results under certain scenarios and the results of monitoring the sources, uses and cost of funds are submitted to the Bank's Assets-Liabilities Committee (ALCO) for its consideration and the appropriate decision-making by the committee and/or the Senior Management.

Pursuant to the new regulatory framework of Basel III which has been implemented since the 1st of January, 2014, (Directive 2013/26/EE and Regulation 575/2013 of the European Parliament and the Commission) the supervisory requirements for Liquidity Risk include the continuous calculation, monitoring and adherence to specific liquidity ratios, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) which have gradually come into effect since October 2014.

Details on Liquidity and Liquidity Risk are included in Note 2.2 and Note 4.3 of the Financial Statements.

Market Risk

Market risk refers to the possibility of the Bank incurring losses due to adverse changes in the levels of market prices of bonds and securities, interest rates, and foreign exchange rates it is exposed at.

ABBank follows a policy of maintaining limited market risk positions. Through documented policies and procedures being followed for the assumption and management of market risk, the Bank aims at timely identifying, evaluating, monitoring and minimizing such (e.g. through hedging transactions), in conjunction with the compliance with the relevant principles and limits having been set out and approved by its pertinent internal bodies.

The Bank regularly conducts stress tests in relation to all major market risks, such as Interest Rates risk, Foreign Exchange Risk, Re-pricing Risk in the banking book as well as to the value of its Marketable Securities holdings etc. Although ABBank has selected the Standardized Approach for the calculation of market risk capital requirements and the relevant supervisory reporting, for the sake of internally observing more effectively its market risk positions the VaR is calculated on a daily basis, at an overall as well as an itemized level (interest rate, foreign exchange, securities price), through the RiskValue application of Systemic.

Details on Market Risk are included in Note 4.4 of the Financial Statements.

Operational Risk

Operational risk involves the possibility of generating losses as a result of implementing inadequate or unsuccessful internal procedures and systems, of external events and/or the human factor.

The Bank has established a policy framework for the management of operational risk which includes the procedure of self-assessment of operational risks and the related environment of control, the procedure of loss data capturing and the development and update of relevant mitigating action plans.

For the calculation of the capital requirements for operational risk, the Bank follows the Basic Indicator approach.

Important events

On 5th and 7th of June 2019 a sale and purchase agreement was signed for 90% of the Bank's shares, among existing shareholders and Aegean Financial Holdings S.a.r.I, a subsidiary of Chenavari investment managers, already holding since the end of 2017 a stake of 4%. The agreement is subject to the approval of the regulatory banking authority and is expected to be completed the upcoming months. After the completion of the shares sale and purchase, Aegean Financial Holdings S.a.r.I will become a major shareholder of the Bank holding 94% of the total shares.

On 7th of June 2019 a memorandum of agreement was signed concerning the sale of the vessel ALKYONI, classified as a non-current asset held for sale in the Bank's ownership, for the amount of €1.6 million. The sale was completed on 28th of June 2018.

Internal Developments – Goals and potential

In the second half of 2018, ABBank commenced its Greek corporate banking activities, focusing on the financing of non-shipping mid-sized companies with exporting orientation, whereas other domestic business sectors, such as commercial real estate etc. are also included in the Bank's targets.

Access to the domestic and international interbank market is considered crucial for the Bank's expansion and asset growth. ABBank has focused on this area and has developed new synergies with domestic and international credit institutions as well as European regional development banks, demonstrating the Bank's potential development in this area.

As regards customer deposits, the Bank is in progressed negotiations with European electronic deposit management platforms for the development of synergies in attracting retail customer deposits from other European countries within 2019. Successful development of the above is expected to further expand ABBank's funding sources and improve its market recognition.

In addition, ABBank invests in new technologies and is in the final stage of integration of its electronic banking platform (WEB Banking). The latter is expected to be fully operational by the end of 2019 and the Bank is targeting to provide its customers with electronic banking products of equivalent quality to those of systemic banks.

The Senior Management of ABBank believes that the continuing improvement of the fiscal conditions and economic growth prospects in Greece, the arrival of a new shareholder with significant activity in Europe, the Bank's solid capital adequacy and enhanced liquidity proportions in conjunction with the abovementioned initiatives, upgrade ABBank's outlook for future profitability and business growth.

Athens, 10 July 2019

The Chairman of the BoD

Konstantinos Hadjipanayotis

Independent Auditors’ Report

TRUE TRANSLATION FROM THE ORIGINAL IN GREEK

INDEPENDENT AUDITOR’S REPORT

To the Shareholders of AEGEAN BALTIC BANK S.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of AEGAN BALTIC BANK S.A. (the Bank), which comprise the statement of financial position as at 31 December 2018, the statements of income and comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2018 and its performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (hereafter ”IFRS”), as endorsed by the European Union.

Basis for Opinion

We concluded our audit in accordance with International Standards on Auditing (ISAs) as these have been incorporated into the Greek legislation. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We have been independent of the Bank during the whole period of our appointment in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) as incorporated into the Greek legislation and the ethical requirements in Greece relevant to the audit of the financial statements and we have fulfilled our ethical requirements in accordance with the applicable legislation and the above mentioned Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the Key audit matter</th></tr>
<tr><td colspan="2">Allowance for loans and advances to customers</td></tr>
<tr><td>Loans and advances to customers at amortized cost of the Bank amounted to € 156.290 th (€ 137.671 th at 31 December 2017), and impairment gains on loans (profit for the period) amounted to € 597 th for the year ended 31 December 2018 (€ 1.056 th (charge for the period) for the year ended 31 December 2017).

From 1 January 2018, the Bank has adopted IFRS 9, resulting in impairment charges being recognised when the losses are expected rather than when they have been incurred.

Measurement of the allowance for impairments on loans and advances to customers at amortized cost is considered a key audit matter given the magnitude of the specific account balance, as well as the fact that the determination of the assumptions used is highly subjective, due to the high level of judgement applied by Management for expected credit losses (ECL) due to credit risk. Moreover, there is a significant increase in models used and data inputs required for the impairment calculations and there is limited experience available to perform back testing of ECL calculations with actual results.

The Bank establishes allowances for impairments on loans and advances to customers at amortized cost for expected credit losses on both an individual and on a collective basis.

Key judgements and estimates in respect of the timing and measurement of expected credit losses (ECL) include:

• Accounting interpretations and modeling assumptions used in the expected credit loss models to assess the credit risk related to the exposure and the expected future cash flows of the customer.
• Inputs and assumptions used to estimate the impact of the economic scenarios.
• Timely identification of exposures with significant increase in credit risk and credit impaired exposures.
• Valuation of collateral and assumptions of future cash flows on individually assessed credit-impaired exposures, including the assessment of multiple scenarios.
• Accuracy and adequacy of the financial statement disclosures.

Management has provided further information about principles and accounting policies for determining the allowance for impairment on loans and advances to customers at amortized cost, management of credit risk and the review of impairment and charges for impairment on loans and advances to customers at amortized cost in Notes 2.1, 2.10, 4, 11, 16 to the financial statements.</td><td>Based on our risk assessment and following a risk-based approach, we have evaluated the impairment methodologies applied and assumptions made by Management in relation to this key audit matter, which included, inter alia, the following audit procedures:

• Assessed design and implementation of internal controls relevant to the audit, including controls around methodologies applied, risk models used, significant assumptions employed by Management, accuracy and completeness of data inputs and model calculations as well as controls over valuation of collateral and assumptions of future cash flows for individually assessed exposures.
• Assessed the appropriateness of impairment provisioning methodologies and policies adopted by Management (including Significant Increase in Credit Risk criteria used).
• Assessed the base case and alternative economic scenario.
• Obtained and tested evidence of timely identification of exposures with significant increase in credit risk and timely identification of credit impaired exposures.
• On a sample basis assessed the measurement of impairment of individually assessed exposures, including valuation of collaterals as well as assumptions used for estimating future discounted cash flows.
• Assessed the measurement of credit risk based on the current economic conditions, market circumstances and Management's actions by:
- Assessing the key developments against historical data.
- Assessing the reasonableness of the different identified post model adjustments by challenging key assumptions using our industry knowledge and experience.
• We assessed whether the disclosures appropriately disclose and address the uncertainty, which exists when determining the expected credit losses. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear.</td></tr>
</table>

Other Information

Management is responsible for the other information. The other information, included in the Board of Directors Report, referred to in the section ”Report on Other Legal and Regulatory Requirements”, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as endorsed by the European Union, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Audit Committee (article 44 of Law 4449/2017) of the Bank is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, as these have been transposed into the Greek legislation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Auditor's Responsibilities for the Audit of the Financial Statements - *Continue*

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters.

Report on Other Legal and Regulatory Requirements

1. Board of Director's Report

Taking into consideration that Management is responsible for the preparation of the Board of Director's report, according to the provisions of paragraph 5 of article 2 (part B) of Law 4336/2015 we note the following:

a. In our opinion, the Board of Director's report has been prepared in accordance with the applicable legal requirements of article 43a and 107a of Greek Codified Law 2190/1920 and its content is consistent with the accompanying financial statements for the year ended 31 December 2018.

b. Based on the knowledge we obtained during our audit of AEGEAN BALTIC BANK S.A. and its environment, we have not identified any material inconsistencies in the Board of Director's Report.

2. Additional Report to the Audit Committee

Our audit opinion on the financial statements is consistent with the additional report to the Audit Committee referred to in Article 11 of the European Union (EU) Regulation 537/2014.

3. Non-audit Services

We have not provided to the Bank any prohibited non-audit services referred to in Article 5 of EU Regulation 537/2014.

4. Appointment

We were first appointed as statutory auditors by virtue of Bank's articles of association at incorporation, which was approved based on 25/9/2002 decision of Prefecture of Athens. Our appointment has been, since then, uninterrupted renewed by the Annual General Assembly of shareholders of the Bank for 16 consecutive years.

Athens, 10 July 2019

The Certified Public Accountant

Michalis Karavas
Reg. No. SOEL: 13371
Deloitte Certified Public Accountants S.A.
3a Fragkoklissias & Granikou Str.
GR 151-25 Maroussi, Athens, Greece
Reg. No. SOEL: E. 120

AEGEAN BALTIC BANK S.A

Financial Statements
In accordance with International Financial Reporting Standards

31 December 2018

July 2019

Income Statement

	Note	2018 €' 000	2017 €' 000
Interest and similar income		11,218	9,622
Interest expense and similar charges		(1,959)	(1,411)
Net interest income	5	9,259	8,211
Fee and commission income		2,250	2,238
Fee and commission expense		(280)	(195)
Net fee and commission income	6	1,970	2,043
Net result from derivatives and investment securities	7	(1,541)	(1,375)
Other operating income		12	15
Total Income		**9,700**	**8,894**
Personnel expenses	8	(5,903)	(5,945)
General administrative expenses	9	(3,125)	(2,655)
Depreciation and amortization	10	(669)	(579)
Impairment losses on loans and advances	11	597	(1,056)
ECL of Investment securities at FVTOCI	17	(13)	-
Profit/(Loss) before tax		**587**	**(1,342)**
Income Tax	12	(197)	384
Profit/(Loss) for the year		**390**	**(958)**
Attributable to:			
Equity holders of the Bank		390	(958)
Profit/(Loss) for the year		**390**	**(958)**

Athens, 10 July 2019

The Chairman	The Managing Director	The Chief Financial Officer
Konstantinos Hadjipanayotis	Theodore Afthonidis	George Kalantzis

The notes on pages 27 to 80 are an integral part of these financial statements.

Statement of Comprehensive Income

	Note	**2018** €' 000	**2017** €' 000
Profit /(Loss) for the year		**390**	**(958)**
<u>Other comprehensive income / (expense)</u>			
Items that may be reclassified subsequently to profit or loss			
Fair value reserve (Financial assets at FVTOCI)	17	41	-
Fair value reserve (Available for sale financial assets)	17	-	155
Related Tax	22	(12)	(45)
Total off items that may be reclassified subsequently to profit or loss		**29**	**110**
Items that will not be reclassified subsequently to profit or loss			
Actuarial Gain / (Loss) of Retirement Benefit Obligations	28	(25)	(12)
Related Tax	22	7	4
Total off items that will not be reclassified subsequently to profit or loss		**(18)**	**(8)**
Other comprehensive income / (expense) for the year, net of tax		**11**	**102**
Total comprehensive income / (expense) for the year		**401**	**(856)**
Attributable to:			
Equity holders of the Bank		401	(856)
Total recognized income / (expense) for the year		**401**	**(856)**

Athens, 10 July 2019

The Chairman	The Managing Director	The Chief Financial Officer
Konstantinos Hadjipanayotis	Theodore Afthonidis	George Kalantzis

The notes on pages 27 to 80 are an integral part of these financial statements.

Statement of Financial Position

	Note	2018 €' 000	2017 €' 000
ASSETS			
Cash and balances with Central Bank	13	8,465	8,404
Due from banks	15	61,653	50,439
Loans and advances to customers	16	156,290	137,671
Investment securities AFS	17	-	3,602
Investment securities FVTOCI	17	13,667	-
Financial assets at fair value through P&L	18	14,553	21,719
Derivative financial instruments	19	224	889
Intangible assets	20	1,117	915
Property and equipment	21	5,779	5,993
Other assets	23	7,828	8,264
Deferred tax assets	22	29	-
Non-current assets held for sale	24	1,512	-
Total assets		**271,116**	**237,896**
LIABILITIES			
Due to banks	25	32,336	14,194
Due to customers	26	145,847	130,592
Derivative financial instruments	19	120	38
Retirement benefit obligations	28	1,526	1,386
Deferred tax liabilities	22	-	233
Other liabilities	27	1,907	1,338
Total liabilities		**181,736**	**147,781**
SHAREHOLDERS' EQUITY			
Share capital	29	37,980	37,980
Share premium	30	50,207	50,207
Reserves	31	341	329
Retained earnings	32	852	1,599
Total shareholders' equity		**89,380**	**90,115**
Total liabilities and equity		**271,116**	**237,896**

Athens, 10 July 2019

The Chairman	The Managing Director	The Chief Financial Officer
Konstantinos Hadjipanayotis	Theodore Afthonidis	George Kalantzis

The notes on pages 27 to 80 are an integral part of these financial statements.

Statement of Changes in Equity

	Share Capital	Share Premium	Reserves	Retained Earnings	Total
Balance at 01.01.2017	**37,980**	**50,207**	**228**	**3,957**	**92,372**
Movement in the AFS reserve – valuation	-	-	109	-	109
Remeasurement of the defined benefit obligations, net of tax	-	-	(8)	-	(8)
Loss for the year	-	-	-	(958)	(958)
Dividends paid	-	-	-	(1,400)	(1,400)
Balance at 31.12.2017	**37,980**	**50,207**	**329**	**1,599**	**90,115**

Balance at 31.12.2017	**37,980**	**50,207**	**329**	**1,599**	**90,115**
Retained earnings IFRS 9 first time adoption	-	-	-	(1,136)	(1,136)
Movement in the AFS reserve – reclassification	-	-	(41)	-	(41)
Movement in the OCI reserve – reclassification	-	-	41	-	41
Balance at 01.01.2018	**37,980**	**50,207**	**329**	**463**	**88,979**
Movement in the OCI reserve – valuation	-	-	29	-	29
Remeasurement of the defined benefit obligations, net of tax	-	-	(18)	-	(18)
Profit (Loss) for the year	-	-	-	390	390
Balance at 31.12.2018	**37,980**	**50,207**	**341**	**853**	**89,380**

The notes on pages 27 to 80 are an integral part of these financial statements

Cash Flow Statement

	Note	2018 €' 000	2017 €' 000
Cash flows from operating activities			
Profit before tax		**587**	**(1,342)**
Adjustments for:			
Depreciation and amortization charges	10	669	579
Credit provisions and other impairment charges	11,17	(584)	1,056
Provisions for retirement benefit obligations	27	115	105
Adjustment for Settlement/Termination loss/(gain)		-	(224)
(Gain) / Loss from sale of investment securities at FVTOCI	7	(27)	(79)
(Gain) / Loss from sale of investment securities at FVTPL	7	(37)	-
(Gain) / Loss from valuation of financial assets at fair value through P&L	7	71	38
Foreign exchange (profit) / loss on financial assets at fair value through P&L	17	(12)	-
Foreign exchange (profit) / loss on cash and cash equivalents		(619)	276
		(163)	**409**
Net (increase)/decrease in operating assets:			
Loans and advances to customers		(19,622)	54,848
Financial assets at fair value through P&L	18	7,144	(21,757)
Derivative financial assets		665	(669)
Other assets		436	157
Net increase/(decrease) in operating liabilities:			
Due to banks	25	18,142	6,193
Due to customers	26	15,255	8,568
Derivative financial liabilities		82	(260)
Other liabilities		570	106
Cash flow from operating activities before tax payment		22,834	47,595
Income tax paid		-	-
Net cash flow from operating activities		**22,834**	**47,595**
Cash flows from investing activities			
Acquisition of property and equipment	21	(157)	(82)
Acquisition of intangible assets	20	(499)	(257)
Acquisition of investment securities	17	(17,726)	(8,289)
Acquisition of current assets held for sale	24	(1,512)	-
Proceeds from disposal of investment securities	17	7,715	5,279
Net cash flow from investing activities		**(12,179)**	**(3,349)**
Cash flows from financing activities			
Dividends paid		-	(1,400)
Net cash flow from financing activities		**-**	**(1,400)**
Net increase / (decrease) in cash and cash equivalents		**10,655**	**42,846**
Cash and cash equivalents at beginning of period	14	**58,843**	**16,274**
Foreign exchange profit /(loss) on cash and cash equivalents		619	(276)
Cash and cash equivalents at end of period	14	**70,119**	**58,843**

The notes on pages 27 to 80 are an integral part of these financial statements.

Note 1: General Information

The Bank is registered under the legal name ‘AEGEAN BALTIC BANK S.A.’ and uses its trade name ‘AB Bank S.A.’ Its registered office is located at Maroussi, 91 Meg.Alexandrou & 25th Martiou 151 24, Greece (Reg. 52755/06/B/02/34 and Gen.Reg ΓΕΜΗ- 4918201000). The Bank’s duration is until 2099 however it can be extended or reduced by resolution of the General Assembly of the Shareholders.

The objective of the Bank is to execute, on its behalf or on behalf of third parties, in Greece or abroad, independently or in cooperation, including syndication with third parties, any and every operation acknowledged or delegated by law to banks and indicated in the fourth clause of its article of association.

The term of the Board of Directors (BoD) of the Bank, elected by the General Assembly of the Shareholders on 04 July 2017, terminates on the date of convocation of the Ordinary General Meeting in the year 2022.

The current BoD constituted in body on 24 October 2018.

The composition of BoD as amended after the resignations and replacements of its members until 31.12.2018 is as follows:

Konstantinos Hadjipanayotis	Chairman & Deputy Managing Director	Executive Member
Theodore Afthonidis	Vice Chairman and Managing Director	Executive Member
Petros Christodoulou	Member	Non-Executive
Pedro Miguel Weiss	Member	Non-Executive
Dimitris Potamitis	Member	Non-Executive, Independent
Emmanuel Kavussanos	Member	Non-Executive, Independent
Dimitris Anagnostopoulos	Member	Non-Executive
Panagiotis Constantaras	Member	Non-Executive, Independent
Anastasios Tourkolias (*)	Member	Non-Executive

(*) On 27 March 2018 the Board of Directors appointed Mr. Anastasios Tourkolias as new non-executive member in replacement of Mr. Peter Salzer, resigned at 5 March 2018, for an equal term to the remaining term of the resigned member.

These financial statements (hereinafter the “Financial Statements”) have been approved for issue by the Bank’s BoD on 10 July 2019.

The Financial Statements are subject to the approval of the Annual General Meeting of the Bank’s shareholders.

Note 2: Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union (the E.U.). E.U. endorsed IFRSs may differ from IFRSs as issued by the International Accounting Standards Board (IASB) if at any point in time, new or amended IFRSs have not been endorsed by the E.U. At 31 December 2018, there were no unendorsed standards effective for the year ended 31 December 2018, which affect these financial statements, and there was no difference between IFRSs endorsed by the E.U. and IFRSs issued by the IASB in terms of their application to the Bank. Accordingly, the Bank's financial statements for the year ended 31 December 2018 are prepared in accordance with IFRSs as issued by the IASB. The financial statements were prepared under the historical cost convention, as modified by the revaluation of available for sale investment securities, and all derivative contracts measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period.

Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over the counter ("OTC") derivatives, retirement benefits obligation, and recoverability of deferred tax assets and impairment of loans. Actual results in the future could differ from such estimates and the differences may be immaterial to the financial statements.

The financial statements are presented in Euro, rounded to the nearest thousand unless otherwise indicated.

a) <u>Standards, interpretations and amendments to published standards effective in 2018</u>

- **IFRS 9 "Financial Instruments"**

The Bank adopted IFRS 9 "Financial Instruments" on 1st January 2018, which replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 changed the provisions concerning the classification and measurement of financial assets and financial liabilities as well as implemented the expected credit losses model for the measurement of impairment of financial assets that replaces the incurred loss impairment model used until financial year 2017. In addition to this, the standard includes the revised provisions relating to hedge accounting in a way that align the accounting treatment of hedging relations with the risk management activities. Given that IFRS 9 provides an optional adoption of the revised hedge accounting, the Bank has elected to retain the IAS 39 hedge accounting requirements. Currently the Bank does not apply hedge accounting.

The Bank has set three Business models to categorize its financial instruments.

- The Held to collect "HTC" Business model: Under the HTC Business model the Bank classifies the financial instruments that fulfill the solely payments of interest and principal criteria and from which it expects to receive their cash flows. The financial instruments classified under HTC Business Model are measured at amortised Cost;
- The Held to collect and sell "HTCS" Business model: Under the HTC Business model the Bank classifies the financial instruments that fulfill the solely payments of interest and principal criteria and from which it expects to receive their cash flows and also to sell them. The financial instruments classified under HTCs Business Model are measured at fair value, with the changes in fair value presented in Other comprehensive income;
- The financial assets that are not classified in the two categories above, are classified in the Fair Value through Profit and Loss ("FVTPL"). The financial assets classified in FVTPL category are measured at fair value with the changes in the fair value monitored in Profit or Loss.

The Bank reassesses its assigned business models on an annual basis. The purpose of this procedure is to confirm that end year data are aligned with the business models, and that the predefined thresholds, where applicable are met.

In particular for the HTC business model which is prevalent among the majority of the Banks assets, the Bank reviews the available data and results and ensures the business model is properly implemented.

The factors that define whether cash flows are going to be generated solely by collecting the security's contractual cash flows are the frequency, the value and timing of sales in prior periods, as well as, the reasons for those sales and expectations about any activity related to future sales. That is, the Bank in order to assess whether a security's business model is solely to collect cash flows, it should take into consideration not only information about past sales but also expectations about the future sales.

Additionally, there are cases where albeit debt instruments are initially held to collect contractual cash flows and later sold, the portfolio's business model can still be considered as «Hold to collect». Such cases are:

- Sales that occur due to an increase in the asset's credit risk

A debt security's business model can be considered as HTC contractual cash flows even though the asset might be later sold due to an increase in credit risk. The frequency or value of a debt security's sale does not affect the evaluation of the asset's business model as HTC contractual cash flows as long as the asset's sale was a result of its increasing credit risk.

- Sales that occur in order to manage credit concentration risk without an increase in the security's credit risk

A debt security can be sold and still be in line with the HTC model if the cause of the sale was to manage credit concentration risk (without an increase in the asset's credit risk) provided that those sales are infrequent (albeit significant in value) or insignificant in value both individually and in aggregate (albeit frequent). The Bank has defined specific thresholds which determine whether the sale is consistent with the objective of collecting contractual cash flows. The thresholds in the case of debt securities concern:
— The level of significance; sales must not exceed 2% of portfolio's carrying amount at the start of each annual period
— The frequency; there should not be more than three sales per reporting period

- Sales close to maturity

A debt security which was initially held to collect contractual cash flows and then sold can still be evaluated with the objective to collect contractual cash flows given that the following terms are met:
— The sale takes place at most 3 months before its contractual maturity; and
— The earnings from the sales approximate the collection of the remaining contractual cash flows (i.e. 90% of the contractual cash flows).

The Bank also reviews its thresholds, currently in effect, to ensure that they sufficiently filter the insignificant sales from the evaluation. In case the thresholds are found to be properly adjusted, but the business models remain unaligned with the implemented management decisions, the Bank considers the reassignment of assets that in practice should be managed differently with regard to their sales policy.

Exempt from consideration are third-party induced sales, such as those imposed by regulators, government oversight, as well as those that are not within the scope of basic scenario business management decisions. Also the assessment is performed on the basis of scenarios that the Bank reasonably expects to occur. For example if the Bank expects to sell a particular portfolio of financial assets only in a stress case scenario to obtain liquidity, this scenario would not affect the assessment of the business model for those assets where the occurrence of such scenario is not expected. In such cases the business model does not need to be reassessed.

The Bank fully implemented IFRS 9 as at 1 January 2018, without restating the relevant comparatives and with all the required transitional disclosures being made. Therefore, the comparative information for the financial year ended 31 December 2017 is not comparable to the information presented for the financial year ended 31 December 2018, as it is reported under IAS 39. Please refer to the relevant IFRS 9 transitional disclosures in Note 35**.**

- **IFRS 15 "Revenue from Contracts with Customers"**

The Bank adopted IFRS 15 "Revenue from Contracts with Customers" on 1st January 2018. This standard established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 replaces the revenue recognition guidance included is IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations. IFRS 15 establishes the principles that an entity shall apply to report useful information to the users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The new standard shall be applied to all contracts with customers, except those that are in scope of other standards, such as financial instruments, financial leases and insurance contracts. According to the new standard, an entity recognizes revenue to depict the transfer of goods or services to the customers in an amount that reflects the consideration in exchange for those goods or services, when the underlying performance obligation is satisfied.

The five – step approach to revenue recognition provided by IFRS 15 is the following:

- Identify the contract with the customer.
- Identify the performance obligations in the contracts.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognizing revenue when the entity satisfies a performance obligation.

The Bank has adopted IFRS 15 as of 1 January 2018, the adoption of the standard and its amendment had no impact on the Bank's financial statements as net interest income, which is a primary revenue stream of the Bank, is not impacted by the adoption of IFRS 15.
Furthermore, regarding Bank's revenue from contracts with customers, including fee and commission income, there was no change in the accounting treatment of services provided over time, or transactions executed at point in time, as it is consistent with the Bank's existing accounting policy. Please refer to the relevant IFRS 15 transitional disclosures in Note 6.

Amendments and Interpretations:

- **IFRS 15 (Amendment) Clarifications to IFRS 15 "Revenue from Contracts with Customers"**

(Effective for annual periods beginning on or after 1 January 2018) The amendment clarifies three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and provides some transition relief for modified contracts and completed contracts.

- **IFRS 2 (Amendment) "Classification and measurement of Shared-based Payment transactions"**

(Effective for annual periods beginning on or after 1 January 2018) The amendment clarifies the measurement basis for cash-settled, share-based payments and also the accounting for modifications that change an award from cash-settled to equity-settled. Also an exception to the principles in IFRS 2 is introduced, that will require an award to be treated as if it was wholly equity settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority. These amendments do not have any impact on the Bank's financial statements.

- **IFRS 4 (Amendments) "Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts"**

(Effective for annual periods beginning on or after 1 January 2018) The amendments introduce two approaches. The amended standard will give a) all companies that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued, and b) companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9 until 2021. These amendments are not expected to have any impact on the Bank's financial statements.

- **IAS 40 (Amendments) "Transfers of Investment Property"**

(Effective for annual periods beginning on or after 1 January 2018) The amendments clarified that to transfer to, or from, investment properties there must be a change in use. To conclude if a property has changed use there should be an assessment of whether the property meets the definition and the change must be supported by evidence these amendments are not expected to have any impact on the Bank's financial statements.

- **IFRIC 22 "Foreign currency transactions and advance consideration"**

(Effective for annual periods beginning on or after 1 January 2018) The interpretation provides guidance on how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21. The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contracts. The interpretation have no significant impact on the Bank's financial statements.

Annual Improvements to IFRSs 2014-2016

- **IAS 28 "Investments in associates and Joint ventures"**

(Effective for annual periods beginning on or after 1 January 2018) The amendments clarify that when venture capital organizations, mutual funds, unit trusts and similar entities elect to measure their investments in associates or joint ventures at fair value through profit or loss "FVTPL", this election should be made separately for each associate or joint venture at initial recognition.

- **IFRS 1"First Time Adoption of International Financial Reporting Standards"**

(Effective for annual periods beginning on or after 1 January 2018) The amendment deletes paragraphs IFRS E3-E7 regarding the short-term exemptions.

b) New standards, amendments and interpretations to existing standards, effective after 2018.

- **IFRS 16 “Leases”**

(Effective for annual periods beginning on or after 1 January 2019) IFRS 16 introduces a single lease accounting model for lessees and lessors. IFRS 16 replaces leasing guidance, including IAS 17 standard *Leases* as well as the related interpretations when it enters into force, for accounting periods begging on or after 01 January 2019. IFRS 16 requires lessees to recognize Right of use assets (RoU) and lease liabilities for all its lease contracts that fulfil the definition of a lease except from short term leases (lease term of 12 months or less) and leases of low-value assets. Lessor accounting remains similar to the current standard - i.e. lessors continue to classify leases as finance or operating lease, using the same classification criteria with IAS 17.

The date of initial application of IFRS 16 for the Bank will be 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 using the simplified method as defined in IFRS16:C5b, according to which the cumulative effect of the initial application of the standard will be recognized as an adjustment directly to the opening balance of the retained earnings at the date of initial application, therefore comparative information will not be restated. In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee will recognize an equal amount for both the right-of-use-assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments. The Bank will make use of the practical expedient, as defined in IFRS16:C3, not to reassess at the date of initial application whether a contract is or contains a lease. In addition, the Bank will make use of the practical expedient regarding the separation of lease and non-lease component and therefore the Bank will account for each lease component and any associated non-lease component as a single lease.

IFRS 16 will change Bank's accounting treatment of leases that were classified as operating leases according to IAS 17. As at 31 December 2018, the Bank has non-cancellable operating leases amounted to € 630 thousand. Based on a preliminary exercise conducted to determine the impact of IFRS 16 with reference date 1 January 2019, the Bank estimates that will recognize right-of-use-asset between €540 thousand and €590 thousand and an equal lease liability.

- **IFRIC 23 “Uncertainty over Income Tax Treatments”**

(Effective for annual periods beginning on or after 1 January 2019) The interpretation aims to reduce diversity in how companies recognize and measure a tax liability or tax asset when there is uncertainty over income tax treatments regarding the determination of taxable profit (or tax loss), tax bases, unused tax losses, unused tax credits and tax rates.

- **IFRS 9 (Amendments) “Prepayment Features with Negative Compensation”**

(Effective for annual periods beginning on or after 1 January 2019) The amendment allows companies to measure symmetrical options which include prepayable features with negative compensation at amortized cost or at fair value through other comprehensive income instead of at fair value through profit or loss.

- **IAS 28 (Amendment) “Long-term interests in Associates and Joint Ventures”**

(Effective for annual periods beginning on or after 1 January 2019) The amendment clarifies that companies account for long-term interests in an associate company or a joint venture—to which the equity method is not applied using IFRS9. The amendment is not expected to have significant impact on the Bank’s financial statements.

- **IAS 19 (Amendment) “Employee benefits”**

(Effective for annual periods beginning on or after 1 January 2019) The amendment clarifies that if a plan amendment, curtailment or settlements occurs, it is mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. Furthermore, the amendment clarifies the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. This amendment is not expected to have significant impact on the Bank’s financial statements.

Amendments and interpretations to standards issued by the International Accounting Standards Board but not yet endorsed by the EU. and therefore not applied by the Bank:

Conceptual Framework (Amendments) "Amendments to References to the Conceptual Framework in IFRS Standards"
(Effective for annual periods beginning on or after 1 January 2020, not yet endorsed by the EU) The new Conceptual Framework does not constitute a substantial revision of the document. The IASB focused on topics that were not yet covered or that showed obvious shortcomings that needed to be dealt with.

- **IAS 1 and IAS 8 (Amendments) “Definition of material”**

(Effective for annual periods beginning on or after 1 January 2020, not yet endorsed by the EU) The amendment clarifies the definition of “material” and aligns the definition used in the Conceptual Framework and the standards themselves.

- **IFRS 3 (Amendment) “Business Combinations”**

(Effective for annual periods beginning on or after 1 January 2020, not yet endorsed by the EU) The amendment aims at resolving the difficulties that arise when an entity determines whether it has acquired or a group of assets.

Annual Improvements to IFRSs 2015-2017 (December 2017)

- **IAS 12 (Amendment) “Income taxes”**

(Effective for annual periods beginning on or after 1 January 2019) The amendment clarifies that all income tax consequences on dividends (i.e. distribution of profits) should be recognized in the Consolidated Income Statement, regardless of how tax arises.

- **IAS 23 (Amendment) "Borrowing costs"**

(Effective for annual periods beginning on or after 1 January 2019). The amendment clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

- **IFRS 11 (Amendment) “Joint Arrangements”**

(Effective for annual periods beginning on or after 1 January 2019) The amendment clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

- **IFRS 3 (Amendment) “Business Combinations”**

(Effective for annual periods beginning on or after 1 January 2019) The amendment clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business.

There are no other IFRSs or IFRIC interpretations that are not yet effective that is expected to have a material impact on the Bank’s financial statements.

2.2 Going Concern

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 extremely high level of the Bank’s Common Equity Tier 1 (CET1) ratio (exceeding 35%) (see note 4.7) and the high level of Liquidity Coverage Ratio (LCR) (181,1% at 31.12.2018).

2.3 Foreign currency transactions

The financial statements are presented in Euro, which is the currency of the country of incorporation of the Bank (functional currency). Transactions in foreign currencies are translated in Euro at the exchange rates (ECB Rate) prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Euro at the closing exchange rate on that date. Foreign exchange differences (profit or loss) arising from translations are recognized in the income statement. Non-monetary assets and liabilities are recognized at the exchange rate prevailing on initial recognition, except for non-monetary items denominated in foreign currencies that are stated at fair value.

2.4 Net Interest income and expense

Interest income and expense are recognized in the income statement for all interest bearing instruments on a time proportion basis, taking account of the principal outstanding and using the effective interest rate method based on the actual purchase price. The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. 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 the next re-pricing date, in order for the present value of the future cash flows to be equal to the carrying amount of the financial instrument.

In particular due to the implementation of IFRS 9 the Bank applies:

- For the interest bearing financial assets classified within Stage 1 or Stage 2, interest income is calculated by applying the effective interest rate to the gross carrying amount of the financial asset.
- For the interest bearing financial assets classified within stage 3, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset.

- For the purchased or originated credit impaired interest bearing financial assets, interest income is calculated similar to the Stage 3 loans and by applying the credit adjusted effective interest rate of the financial asset.

As of 31st December 2018 the Bank did not purchased or originated credit impaired financial assets.

2.5 Net Fee and commission income

To recognize fees and commission income/expense under IFRS 15, the Bank applies the following five step model to all contracts with customers other than those in scope with other standards such as financial leasing, financial instruments in scope of IFRS 9:

- Identify the contract with the customer.
- Identify the performance obligations in the contracts.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contracts.
- Recognizing revenue when the entity satisfies a performance obligation.

As such, the Bank recognizes revenue when a performance obligation is satisfied, that is when control of the services or goods is transferred to the customer. Fee and commission income is recognized on an accrual basis over the period the relevant services have been provided. Transaction revenues relating to the origination of a financial instrument which is measured at amortized cost, such as loans and receivables, are capitalized and recognized in the income statement using the effective interest rate method.

2.6 Financial assets at fair value through profit or loss ("FVTPL")

A. Financial assets at FVTPL

This category includes financial assets that do not meet the criteria of being measured at either amortised cost or fair value through other comprehensive income ("FVTOCI"). All financial assets acquired principally for the purpose of selling in the short term or if so designated by the management, are recognized on the trade date, which is the date that the Bank commits to purchase or sell the asset and are classified under this category which has the following two sub-categories:

c1: Trading securities

Trading securities are securities, which are either acquired for generating a profit from short term fluctuations or are securities included in a portfolio in which a pattern of short-term profit making exists. Trading securities are initially recognized at cost and subsequently re-measured at fair value. Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in fair value are included in net trading income/ (loss). Interest earned with holding trading securities is reported in interest income. Trading securities held are not reclassified out of the respective category. Respectively, investment securities are not reclassified into trading securities category while they are held.

c2: Designated at fair value through profit or loss

Upon initial recognition the Bank may designate any financial assets as at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when either;

I. The Bank estimates or significantly reduces a measurement or recognition in consistency (i.e. an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing gains and losses on them on different bases.

II. A group of financial assets, is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel.

III. This category is measured at fair value. The determination of fair values of financial assets at fair value though profit or loss securities is based on quoted market prices, dealer price quotation and pricing models, as appropriate. Changes in fair value are included in net trading income.

B. Financial assets mandatorily at FVTPL

The financial assets that their contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI Fail) are classified mandatorily at FVTPL. This category is measured at fair value.

As at 31st December 2018 the Bank did not have any financial instruments classified mandatorily at FVTPL.

Equity Securities

Equity securities are measured at FVTPL unless the management of the Bank irrevocably elects to measure equity securities at FVTOCI (please refer to Note 2.7). The determination of fair values of financial assets at fair value though profit or loss securities is based on quoted market prices, dealer price quotation and pricing models, as appropriate. Changes in fair value are included in net trading income.

2.7 Investment Securities measured at fair value through other comprehensive income “FVTOCI”

Debt securities measured at FVTOCI

In this category the Bank classifies the debt securities that satisfy both of the following criteria:
- The debt security is held within a business model whose objective is to both collect the contractual cash flows and sell assets (Hold to Collect and Sell “HTCS”) and
- The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

These securities are not sold with the intention of short-term profit and that is why sales might be more frequent and significant in value in comparison with the Hold to Collect (“HTC”) Business Model.

The Bank may elect to classify debt securities under the HTC Business Model due to the following reasons:
- manage everyday liquidity needs,
- maintain a particular interest yield profile, or
- match the duration of the financial assets to the duration of the financial liabilities that those assets are funding.
- manage the return on the portfolio on an opportunistic basis, by reinvesting in higher yielding assets, without a clear intention of holding the financial assets to collect contractual cash flows (although the Bank might end up holding the assets if no other investment opportunities occur).

The debt instruments, after initial recognition, are measured at FVTOCI with any fair value changes recorded directly in other comprehensive income.

In the Income Statement, the Bank recognizes interest income using the effective interest rate method, the expected credit losses and the foreign exchange changes. On the date of derecognition, the cumulative fair value gains/losses of debt securities are reclassified from other comprehensive income to profit and loss (“P&L”).

Default Definition

A key issue in measuring expected losses is identifying when a “default” may occur. For debt securities the Bank identifies that a default has occurred when:
- Significant financial difficulty of the issuer exists;
- A breach of contract, such as a default or past due event (i.e., an issuer has failed to make a payment when contractually due);
- The issuer, for economic or contractual reasons relating to the issuer’s financial difficulty, has granted a concession that the lender would not otherwise consider;
- It is becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- The disappearance of an active market for that financial asset because of financial difficulties within such market.
- The purchase of a debt security at a deep discount that reflects incurred credit losses.

Impairment losses on Debt securities

In line with the IFRS 9 provisions the Bank in the process of calculating ECL, assesses if SICR of debt securities exist. The identification of SICR is based on qualitative and quantitative criteria depending on the availability, quality and quantity of the information. SICR is identified in the following cases:

- Investment grade debt instruments which experience a downgrade to the “non-investment grade” range of the relevant ECAIs.
- Non-investment grade debt instruments that do not fall within the “default” rating range as provided by an ECAI and experience more than 2 notches credit rating downgrade.
- Debt instruments where the Probability of Default (PD) at each reporting date is higher than the PD at origination date by 200%.
- Should neither a credit rating nor a PD exist for a debt instrument but the instrument is traded in an organized market then SICR is considered when there is a significant increase of the credit spread by more than 5% in absolute terms at the reporting date vs the origination date.

The Bank classifies debt securities measured at FVTOCI in three stage for the ECL calculation.

- Stage 1 – The Bank classifies all debt securities rated by an ECAI that fall under the “Investment grade/non speculative” range at Stage 1, provided that it continues to fall within the “investment grade” range of the relevant ECAI. The bank estimates 12-month ECL for stage 1 debt securities;
- Stage 2 – The Bank classifies all debt securities which are a classified in stage 1 at the date of initial recognition and experience significant increase in credit risk “SICR” at the reporting date. The Bank estimates life time ECL for stage 2 debt securities;
- Stage 3 – The Bank classifies all debt securities which meet the criteria below:
  - (i) There is objective evidence of impairment at the reporting date, or
  - (ii) The debtor is compliant with the default definition as defined above, or
  - (iii) The instrument’s credit rating is equivalent to “default”.

  The Bank estimates Life time ECL for stage 3 debt securities.

The Bank in the ECL calculation considers a weighted average estimated effect of two scenarios (base – adverse). The base scenario refers to the current macro-economic environment and consequently all the macro-variant risk parameters, specifically debt instrument’s PD and LGD are known. The adverse scenario refers to a worse than the current macro-economic environment and it is characterized by a percentage increase.

Equity instruments

Equity instruments are measured at FVTPL. The management of the Bank may irrevocably elect to present in other comprehensive income subsequent changes in the fair value of an equity instrument. In the case that the management of the Bank irrevocably elects to present equity instruments at FVTOCI, the accumulated gains and losses recognised in other comprehensive income are not subsequently reclassified to the P&L, but may be reclassified within equity (to the retained earnings).

The equity instruments presented at FVTOCI are not subject to impairment. The dividend income on such equity instruments is recognised in the Income Statement, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains and losses (including those relating to foreign exchange) are recognized in Other Comprehensive Income.

2.8 Reclassification of financial assets

The Bank only reclassifies a financial asset on the assignment of an alternate business model to its portfolio. In this event, the Bank reclassifies an asset and the reclassification is applied prospectively, from the reclassification date onwards. The measurement adjustments are dependent on the original classification as well as the new classification of the asset. This does not give rise to a prior period error in the Financial Statements (as defined in IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”) nor does it change the classification of the remaining financial assets held in that business model (i.e., those financial assets that the Bank recognised in prior periods and still holds), as long as the Bank have considered all relevant information that was available at the time that they made the business model assessment. Accordingly, any previously recognised gains, losses (including impairment losses) or interest should not be restated.

Changes in the business model for managing financial assets are expected to be infrequent. They must be determined by the Bank's senior management as a result of external or internal changes and must be significant to the Bank's operations and demonstrable to external parties. Accordingly, a change in the objective of the Bank’s Business Model will occur only when the Bank either begins or ceases to carry on an activity that is significant to its operations such as the acquisition or disposal of a business segment.

If the Bank reclassifies a financial asset from the amortised cost measurement category to the FVTPL or FVTOCI measurement category, its fair value is measured at the reclassification date. Any gain or loss arising from a difference between the previous amortised cost of the financial asset and fair value is recognised in the Income Statement for FVTPL and in the Statement of Total Comprehensive Income for FVTOCI.

For reclassifications to FVTOCI measurement category, the effective interest rate and the measurement of Expected Credit Losses are not adjusted as a result of the reclassification. However, the loss allowance would be derecognized and instead would be recognized as an accumulated impairment amount in other comprehensive income.

If the Bank reclassify a financial asset from the FVTPL measurement category and into the amortised cost measurement category, its fair value at the reclassification date becomes its new gross carrying amount. The date of the reclassification is the date of initial recognition for impairment calculation purposes and the date for the effective interest rate calculation of the financial asset.

If the Bank reclassify a financial asset from the FVTPL measurement category and into the FVTOCI measurement category, the financial asset continues to be measured at fair value. At the reclassification date, the effective interest rate of the asset is calculated while the date of the reclassification is the date of initial recognition for impairment calculation purposes.

If a financial asset is reclassified from FVTOCI measurement category and into the amortised cost measurement category, the asset is reclassified at its fair value at the measurement date. However, the cumulative gain or loss previously recognized in other comprehensive income is reversed and adjusted against the fair value of the financial asset at the reclassification date. As a result, the financial asset is measured at the reclassification date as if it had always been measured at amortised cost. This reversal affects other comprehensive income but does not affect profit or loss and therefore is not a reclassification adjustment under IAS 1. The effective interest rate and the calculation of Expected Credit Losses are not affected. The loss allowance is recognised as an adjustment to the gross carrying amount of the financial asset from the reclassification date.

If the Bank reclassify a financial asset from FVTOCI into the FVTPL measurement category, the financial asset continues to be measured at fair value. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment (in accordance with IAS 1 “Presentation of Financial Statements”) at the reclassification date.

Reclassification of equity instruments is prohibited.

2.9 Default

A key issue in measuring expected losses is identifying when a “default” may occur. The definition of default applied by the Bank, is consistent with Regulation 575/2013 of the European Parliament (CRR) Article 178, “Default of an obligor”. An obligor is considered as defaulted when either or both of the following have taken place:

- The debtor is past due more than 90 days on any material credit obligation to the institution;
- The debtor is assessed as unlikely to pay (UTP) its loans obligations in full without realization of collateral, regardless of the existence of any past-due amount or of the number of days past due.

2.10 Loans and advances to customers measured at Amortised Cost (“AC”)

Loans and advances to customers measured at AC include financial assets for which both of the following conditions are met:

- the financial asset is held within a Business Model whose objective is to hold financial assets in order to collect contractual cash flows, and
- 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 pass).

Loans and advances to customers are initially recognized at fair value (plus any transaction costs) and measured subsequently at amortized cost using the effective interest rate method. Interest on loans and advances to customers is included in the Income Statement and is reported as “Interest and similar income”.

Impairment losses on loans and advances to customers

In accordance with the IFRS 9 principles, Expected Credit Losses (“ECL”) are calculated on loans and advances to customers measured at amortised cost. More specifically, the Bank recognize ECL on loans and advances to customers at amortised cost when it is estimated that it will not be in a position to receive all payments due, as defined by the contract of the loan.

The amount of the ECL allowance for impairment on loans and advances to customers at amortised cost is the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that the entity expects to receive discounted at the original effective interest rate of the loan (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

The Bank performs calculation for expected loans and advances to customers at each reporting date. The loans and advances to customers are grouped per counterparty group, per industry or per type of loan and impairment provisions are calculated individually and collectively.

The Bank evaluates expected credit losses (ECL) for all its loan exposures through a discounted cash flow model, whereby the present value of the cash flows that the Bank anticipates to receive in respect of a loan (including the present value of the collateral's residual value) are compared to the loan exposure (netted against any cash collateral). performing The present value estimations are made using each facility's effective interest rate as discounting factor (recalculated annually at each impairment testing, given the variable interest rate contained in the Bank's facilities). The ECL calculation has been based on information obtained by the submitted credit applications, reviews or internal update memos, data and information obtained from and/or confirmed directly by the officers, as well as the available market reports and databases.

For the estimation of ECLs, all loan exposures are categorized in 3 stages, depending on whether they are credit impaired or they present a significant increase in credit risk ("SICR"), as follows:

- **Stage 1**: includes all loans that are not credit impaired, nor do they present a SICR and are rated within the first 5 grades of the Bank's rating system. For stage 1 Loans, ECL resulting from default events within the next 12 months.
- **Stage 2**: all loans that present a SICR. The Bank according to its policy recognizes SICR when:
  - (i) a more than 2 notches downgrade in the loan's credit rating between the origination date and reporting date,
  - (ii) the existence of forbearance (forborne performing exposures) and the existence of early arrears (past due between 30 and 90 days, for stage 2 Loans, ECL resulting from default events that are possible within the life time of the loan.
- **Stage 3**: Credit impaired loans (loans that present an objective evidence of impairment and/or are considered "defaulted" under the CRR definition (see Note 2.9)

The stage allocation and the ECL calculation is conducted per borrower exposure for stage 3 Loans, for stage 1 and stage 2 loans the ECL calculation is conducted both on individual and on collective base. The Bank has developed 2 scenarios for the calculation of expected credit losses, one base and one adverse. The Bank weights 60% the base scenario and 40% the adverse scenario. The Bank for the ECL calculation takes into account several assumptions. These assumptions are based on forward-looking and historical data available at the date when the estimates were made.

The Bank adjusts the allowance for loans and advances to customers at every reporting date, to account for further expected credit losses, or reversals in the event of a decrease in credit risk, through recognition of impairment gains or losses accordingly.

For the Forborne exposures the Bank has adopted the EBA definition. Forborne exposures are debt contracts in respect of which forbearance measures have been extended. Forbearance measures consist of concessions towards a debtor facing or about to face difficulties in meeting its financial commitments ("financial difficulties"). Forborne loans are tested for impairment in accordance with the Bank's Impairment policy for loans and advances to customers at amortized cost as described above.

2.11 Debt Securities measured at amortised cost ("AC").

In this category the Bank classifies the debt securities that satisfy both of the following criteria:

- The debt security is held within a business model whose objective is to collect the contractual cash flows (Hold to Collect "HTC") and
- The contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Bank may elect to classify debt securities under the HTC Business Model due to the following reasons:

- manage everyday liquidity needs,
- maintain a particular interest yield profile, or
- match the duration of the financial assets to the duration of the financial liabilities that those assets are funding.
- manage the return on the portfolio on an opportunistic basis, by reinvesting in higher yielding assets, without a clear intention of holding the financial assets to collect contractual cash flows (although the Bank might end up holding the assets if no other investment opportunities occur).

The debt instruments, after initial recognition, are measured at AC. In the Income Statement, the Bank recognizes interest income using the effective interest rate method, the expected credit losses and the foreign exchange changes are recognised in P&L. On the date of derecognition, the cumulative fair value gains/losses of debt securities are reclassified from other comprehensive income to profit and loss ("P&L").

The identification of default for Debt securities measured at AC remains the same with the identification of default for debt securities measured at FVTOCI, see Note 2.7 section Default definition.

For the calculation of expected credit losses for Debt securities measured at AC and the identification of significant increase in credit risk please see Note 2.7 section Impairment losses on Debt securities.

2.12 Modification of financial assets and Derecognition of financial assets and financial liabilities

Modifications of financial assets

The Bank, in the normal course of its business activities, modifies the contractual terms of a loan 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 within the Banking industry, customer retention, etc.

Upon modification of the contractual terms of a loan, an assessment follows, in order to conclude on whether the forbearance qualifies as concession or due to other commercial reasons.

In all cases a modification of terms may result in expiry of the asset's original rights to cash flows, although it would not always do so. This is because it is implicit within the requirements for measuring impairment losses that a modification would sometimes be regarded as a continuation of the original, albeit impaired, asset. Therefore, the Bank would assess the modifications made against the notion of 'expiry' of the rights to the cash flows.

When the cash flows of a loan are modified the Bank assesses whether the rights over the cash flows have been modified substantially, or not. As such, the Bank determines whether the restructured loan should be regarded as:

- The continuation of the original loan if loan terms have not been modified substantially, with modification gain or loss recognized as a consequence of the restructuring, in this case the Bank recognizes modification gain or loss as the difference between the cash flows of the loan after modification discounted by the effective interest rate of the original loan and the carrying amount of the original financial asset; or

- A new loan which replaces the original loan that is hence derecognized if the Loan terms have been modified substantially. In this case the bank would recognize a gain or loss based on the difference between the fair value of the new loan and the carrying amount of the original financial asset.

Derecognition of financial assets

According to IFRS 9, the Bank is entitled to derecognize a financial asset when, and only when:

- The contractual rights to the cash flows from the financial asset seize to exist or expire; or
- When the risk and rewards of the financial asset are transferred.

As such, the Bank determines that the restructured debt should be regarded as a derecognition of the original loan when:

- The collateral of the related exposure has been realized in full or is of zero value; or
- The claims on the related exposure were waived in part or in full; and
- No more payments on the remaining claim are to be expected.
- Change in the currency that the lending exposure is denominated.
- Change in Borrower.
- Modifications on the interest rate type.
- Changes of the product type of the facility.
- Derecognition of financial liabilities.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

If an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of the existing liability are substantially modified, such an exchange or substantial modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the Income Statement.

2.13 Derivative financial instruments

Derivative financial instruments are initially recognized in the statement of financial position at fair value and subsequently are re-measured at their fair value.
All derivatives are presented in assets when favorable to the Bank and in liabilities when unfavorable to the Bank.

Derivatives are entered into for either hedging or trading purposes and they are recognized at fair value irrespective of the purpose for which they have been entered into. Valuation differences arising from these derivatives are recognized in net result from derivatives and investment securities in P&L. The Bank uses mostly FX SWAPs and FX Futures. The FX Swaps and the FX Futures are purchased in order to hedge the currency risk of the open FX position derived from Loans and Customer deposits in foreign currency.

The Bank does not use hedge accounting and therefore the gains and losses from derivative financial instruments are recognized in net result from derivatives and investment securities. However, the above instruments are effective economic hedges.

2.14 Intangible assets

Includes software carried at cost less amortization. Amortization is charged using the straight line method over the estimated useful life, which the Bank has estimated as three years. Expenditure incurred to maintain the software programs is recognized in the income statement as incurred.

2.15 Property and equipment

Includes land, buildings, additions and improvements cost to leased property and other equipment. Property and equipment are initially recorded at cost. Subsequent to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses if any.

Subsequent expenditure is capitalized or recognized as separate asset only when it increases the future economic benefits. All costs for repairs and maintenance are recognized in the income statement as incurred.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each part of an item of property, plant and equipment taking into account residual value.

The estimated useful lives are as follows:

- Land: No depreciation
- Buildings: Not exceeding 50 years
- Significant Components of the Building Not exceeding 10 years
- Additions to leased fixed assets and improvements: Over the term of the lease.
- Motor Vehicles and Equipment: 3 to 5 years.

Gains and losses arising from the sale of property and equipment are recognized in the income statement.

At each reporting date the Bank assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, estimates the recoverable amount of the asset. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

2.16 Deferred and current income Tax

<u>Deferred tax</u>
Deferred taxation is the tax that will be paid or for which relief will be obtained in the future resulting from the different period that certain items are recognized for financial reporting and tax purposes. Deferred tax is provided for 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 provided based on the expected manner of realization or settlement using tax rates (and laws) enacted at the reporting date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, taking into consideration the enacted tax rates at reporting date. Current and deferred tax is recognized in the income statement except to the extent that it relates to items recognized directly to equity in which case it is recognized in equity.

The Bank has offset deferred tax assets and deferred tax liabilities based on the legally enforceable right to set off the recognized amounts i.e. offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

<u>Current income tax</u>
Current Income tax liability is based on taxable profit for the year. Taxable profit differs from profit/(loss) for the period as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The current income tax liability is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

2.17 Provisions and other liabilities

A provision is recognized when the Bank has a constructive or legal obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. Provisions are measured by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money. The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

2.18 Employee benefits

<u>Defined contribution plan</u>
For defined contribution plan, the Bank pays contributions to publicly or privately administrated pension insurance plan, to insurance companies and other funds on a mandatory or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense on an accrual basis and charged to the income statement in the year to which they relate.

<u>Defined benefit plan</u>
The net liability of the Bank, in respect of defined benefit plans, is calculated based on the amount of the future benefits, for which the employees are entitled to and is dependent on their present and former service. The liability recognized in the statement of financial position with respect to defined benefit plan is the present value of the defined benefit obligation at the reporting. The defined benefit obligation is calculated annually based on actuarial valuation performed by independent actuaries using the projected unit credit method. Actuarial gains and losses are recognized directly to the equity of the Bank, as they occur. These gains and losses are not recycled to profit or loss. Past service cost is the change in the present value of the defined benefit obligation resulting from a plan amendment and is recognized directly to profit or loss, when the plan amendment occurs.

2.19 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position and only when there is a legally enforceable right to offset the recognized amounts and there is an intention to realize the asset and settle the liability simultaneously or on a net basis.

2.20 Share issue expenses

<u>Incremental costs of share capital increase</u>
Incremental external costs directly attributable to the issue of shares are deducted from share premium net from any related income tax benefit.
<u>Share premium</u>
The difference between the nominal value and the offering price of the shares issued is recorded as share premium.

2.21 Related party transactions

Related parties include:

(a) an entity that has control over the Bank 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) members of key management personnel, their close family members and entities controlled or jointly controlled by the abovementioned persons;
(c) associates and joint ventures of the Bank; and
(d) fellow 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.

2.22 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Bank, amounts due from other banks and highly liquid financial assets with original maturities of less than three months.

2.23 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The Bank is involved only in operating leases and is acting only as a lessee.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Contingent rentals arising under operating leases are recognized as an expense in the period in which they incurred. In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expenses on a straight-line basis over the lease term.

2.24 Accounting policies followed for the comparative figures of 2017

The Bank, for valuation purposes, classifies its financial assets in the following categories:

a. Loans and advances to customers

Included here are loans given to customers and all receivables from customers, banks etc. Loans and receivables are initially recognized at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

b. Held to maturity investments

Includes securities which the Bank’s management has the ability and intention to hold to maturity. Held to maturity investment securities are carried at amortized cost using the effective interest rate method. Held to maturity investments are recognized on the trade date, which is the date that the Bank commits to purchase or sell the asset.

c. Financial assets at fair value through profit or loss

All financial assets acquired principally for the purpose of selling in the short term or if so designated by the management, are recognized on the trade date, which is the date that the Bank commits to purchase or sell the asset and are classified under this category which has the following two sub-categories:

c1: Trading securities:

Trading securities are securities, which are either acquired for generating a profit from short term fluctuations or are securities included in a portfolio in which a pattern of short-term profit making exists. Trading securities are initially recognized at cost and subsequently re-measured at fair value. Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in fair value are included in net trading income/ (loss). Interest earned with holding trading securities is reported in interest income. Trading securities held are not reclassified out of the respective category. Respectively, investment securities are not reclassified into trading securities category while they are held.

c2: Designated at fair value through profit or loss.

Upon initial recognition the Bank may designate any financial assets as at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, when either;

The Bank estimates or significantly reduces a measurement or recognition in consistency (i.e. an accounting mismatch) that would otherwise arise from measuring assets or liabilities or recognizing gains and losses on them on different bases.

A group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel.

This category is measured at fair value. The determination of fair values of financial assets at fair value though profit or loss securities is based on quoted market prices, dealer price quotation and pricing models, as appropriate. Changes in fair value are included in net trading income.

d. Financial assets available for sale

Available for sale financial assets are investments that have not been classified in any of the previous categories. The Bank includes floating rate bonds and fixed rate bonds for which a specific decision has been made. Available for sale investment securities are initially recorded at cost (including transaction costs) and subsequently re-measured at fair value based on quoted bid prices in active markets, dealer price quotations or discounted expected cash flows on the trade date, which is the date that the Bank commits to purchase or sell the asset. Fair values for unquoted equity investments are determined by applying recognized valuation techniques such as price/earnings or price/cash flow ratios, refined to reflect the specific circumstances of the issuer. Changes in fair value are recognized directly in equity until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is transferred in profit or loss.

e. Impairment losses on loans and advances to customers (under IAS 39)

The Bank assesses at each reporting date whether there is objective evidence that a loan is impaired. A loan is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan and that loss event has an impact on the estimated future cash flows of the loan that can be reliably estimated.

Examples of objective evidence of impairment are:

(a) significant financial difficulty of the obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(d) national or local economic conditions that correlate with defaults in a group of loans (i.e. loans collateralized with specific type of vessel).

The impairment loss is reported through the use of an allowance account on the Statement of Financial Position. Additions to impairment losses are made through Impairment losses on loans and advances in the Income statement.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans carrying amount and the present value of estimated future cash flows.

The adequacy of provisions is reassessed at each reporting date, loans and receivables are grouped per counterparty group, per industry or per type of loan and impairment provisions are calculated individually.

Note 3: Critical accounting estimates and judgments

The preparation of financial statements in accordance with IFRSs requires management to make subjective judgments, estimates and assumptions, which affect not only the carrying amount of assets and liabilities, but also the level of the income and expenses recognized in the financial statements and the notes which are an integral part of the financial statements. Management considers that the subjective judgments, estimates and assumptions, made for the preparation of the financial statements are appropriate and reflect the facts and conditions prevailing on 31 December 2018. The accounting principles, estimates and judgments adopted by the Bank which are material for the understanding of the financial statements are as follows:

3.1 ECL Estimation

Determination of ECL of loans and advances to customers

The ECL measurement requires Management to apply a high degree of judgment in determining the allowance for impairment losses and for the assessment of the significant increase in credit risk ("SICR").

The impairment loss on loans and advances to customers results from a continuous evaluation of the customer's portfolio for expected losses. The evaluation of the customer's portfolio is performed by officers responsible for each credit category, using specific methodology and guidance in accordance with IFRS 9, which are continuously reexamined. Management of the Bank performs individual and collective assessment of customers.

The individual provisions relate to loans and advances separately examined for allowance based in the best management's estimation for the present value of future cash flows. Estimating the present value of future cash flows, the management evaluates the financial position of each customer and the recoverable amount of the collateralized assets (e.g. prenotation on Vessels and property). Each case is evaluated separately, whereas the followed methodology is reviewed periodically.

For the Bank's customers that no allowance is calculated with the individual assessment performed by the responsible officers, the Bank performs a collective assessment. In the collective assessment the Bank uses the data and its prior knowledge of the portfolio assessed as well as forward looking elements available at the assessment date.

Determination of ECL of debt securities

The Bank's estimated ECL for debt securities is the output of a probability weighted model for each scenario with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

For the purposes of the ECL measurement, the Bank perform the necessary model parameterization based on observed point-in-time data. The ECL calculations are based on input parameters, i.e. Exposure At Default ("EAD"), Probability of Default ("PDs"), Loss Given Default ("LGDs"), etc. incorporating Management's view of the future, by using the current macro-variant risk parameters and the respective ones of a worse than the current macro-economic environment and it is characterized by a percentage increase of the debt instrument's PD and LGD. The exact values of the percentage increase are not constant and they are subject to the macroeconomic state at the date of the exercise.

Determination of a significant increase of credit risk (SICR)

The objective of the impairment requirements is to recognize lifetime expected credit losses for all financial assets for which there has been significant increase in credit risk ("SICR") since initial recognition, whether assessed on an individual or collective basis considering all reasonable and supportable information, including forward-looking.

The assessment is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument and requires Management to apply a high degree of judgment in determining the allowance for impairment losses.

The identification of SICR is based on qualitative and quantitative criteria depending on the availability, quality and quantity of the information.

Determination of scenarios, scenario weights and macroeconomic factors of loans and advances to customers

To achieve the objective of measuring ECL, the Bank evaluate a range of possible outcomes in line with the requirements of IFRS 9 through the application of macroeconomic scenarios i.e. base and adverse, in a way that reflects an unbiased and probability weighted outcome, which express potential future developments in the Shipping Industry. Each of the aforementioned scenarios, are based on Management's assumptions for future economic conditions in the form of macroeconomic, market and other factors. Changes in the scenarios and weights, the corresponding set of macroeconomic variables and the assumptions made around those variables would have an effect on the ECL.

3.2 Fair value of loans and advances to customers mandatorily at Fair Value through Profit or Loss ("FVTPL")

Loans and advances to customers that do not meet the criteria for classification at amortised cost, because their contractual terms do not give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (i.e. that fail the SPPI test), are measured at FVTPL.

The fair value of loans and advances to customers is calculated using a discounted cash flow model, taking into account yield curves and any required adjustments for the credit risk element.

3.3 Retirement benefit obligations

The retirement benefit obligations are estimated with actuarial techniques using assumptions for future salary levels and discounting factors. These assumptions are in compliance with annual salary increases affected by the Bank's labor agreements and relevant policies.

3.4 Income tax

The Bank is subject to income tax according to the Greek Tax Legislation. The calculation of income tax expense requires the exercise of significant subjective judgment. In the context of normal bank activity, there are many transactions and calculations for which the final tax assessment is not certain. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences impact the current and deferred income tax assets and liabilities in the period in which the final outcome is determined.

3.5 Deferred Tax

The Bank recognizes deferred tax on temporary tax differences in accordance with the regulations of tax law which distinguishes revenues on those subject to tax and non-taxable, assessing future benefits as well as tax liabilities. For the calculation and evaluation of the deferred tax asset recoverability, management considers the appropriate estimates for the evolution of the Bank's tax results in the foreseeable future. Moreover the Bank examines the nature of the temporary differences and tax losses, as well as the ability for their recovery, in accordance with the tax regulations related to their offsetting with profits generated in future periods (e.g. five years).

Note 4: Financial risk management

4.1 Introduction and overview

The Bank is exposed to the following risks:

- Credit Risk
- Liquidity Risk
- Market Risks
- Operational Risk

This note presents the Bank's exposure to each of the above risks, the objectives, policies and processes for measuring and managing risk, as well as the management of capital.

The Bank, acknowledges its exposure to banking risks as well as the need to control and effectively manage those risks in the most optimum way and provide continuous and high quality returns to its shareholders.

The Board of Directors (BoD) has total responsibility for the development and overseeing of the risk management framework. The implementation and ongoing development of the Risk Management Framework is a priority and is taken into account in the formulation of annual business plans.

The responsibility for the specification and implementation of the risk management framework, according to directions by the Board of directors, has the Risk Management unit. The head of the Management unit reports directly to the Board of directors. The Risk Management Unit is comprised of the following divisions: a) Credit Risk Management division and b) Market, Liquidity and Operational Risk Management division.

4.2 Credit risk

4.2.1 Credit risk management strategies and procedures

AB Bank engages in activities that can expose it to the credit risk. Credit risk is the risk of default of a counterparty regarding its contractual obligations. Credit risk is the most significant risk for the Banks and therefore its effective monitoring and persistent management constitutes a top priority for senior management.

AB Bank's main exposure to credit risk is loans and advances to customers and due from banks. Management gives great consideration to the proper management of credit risk having set up the necessary infrastructure and procedures.

The implementation of the credit policy, that describes the principles of credit risk management of the Bank, ensures effective and uniform credit risk monitoring and control.

Under the Risk Management, there is the Credit Risk Management Division which operates with the mission of continuous monitoring, measurement and control of the Bank's credit risk exposures against enterprises.

4.2.2 Credit risk measurement and reporting systems

Given that the Bank's loans portfolio exclusively consists of unrated by External Credit Assessment Institutions (ECAI) obligors of the shipping sector, AB Bank has established and follows its own, ten-grade, credit risk rating system.

The Bank has also developed internally a shipping credit rating interface between its ten-grade rating system and the object finance slotting criteria methodology of the IRB-Basic approach included in the Basel-II framework. To date, this model is being used by the Bank's Risk Management Department to validate the credit ratings of the ten-grade risk methodology used internally as well as for shipping credit risk stress-testing purposes.

Each category of the credit rating scale corresponds to a specific policy of the Bank as far as the relationship with the respective obligors is concerned. The credit rating scale for borrowing customers comprises 10 grades from which 5 grades correspond to obligors that have not defaulted on their contractual obligations, 1 grade corresponds to obligors who have not defaulted on their contractual obligations, or who have undergone a mild distress restructuring, 1 grade corresponds to obligors who have recorded or are expected to record sporadic (non-continuing) payment defaults, or who have undergone a distress restructuring, 1 grade corresponds to obligors who have recorded continuing payment defaults, or who have undergone a significant distress restructuring and the last 2 grades correspond to obligors who have defaulted on their contractual obligations and the Bank has commenced legal action against them.

Rating	Credit Worthiness	Policy
1	Excellent	Develop relationship
2	Strong	Develop relationship
3	Very Good	Develop relationship
4	Good	Develop relationship
5	Satisfactory	Develop on a case by case basis (lower leverage, strong collateral) / Maintain relationship
6	Acceptable	Maintain relationship / Increase exposure on very selective basis. Strengthen collateral. Improve through mild restructuring.
7	Vulnerable	Limit exposure / Maintain relationship subject to very strong collateral. Improve through preferably mild or distress restructuring
8	Substandard	Limit exposure / Restructure (distress) subject to very strong collateral and/or much stronger debt servicing potential
9	Doubtful	Restructure / Terminate relationship through liquidation. Enforce legal rights with the aim to avoid incurring loss.
10	Loss	Terminate relationship through liquidation. Enforce legal rights or restructure (forbearance) with the aim to limit loss.

These information sources (credit rate) are first used to determine the appropriate IFRS 9 stage of the shipping exposures and assess if an event of significant increase in credit risk ("SICR") has been occurred.

When the Bank considers that the borrower has become risky, it takes the necessary measures to reduce its exposure to that risk and furthermore to reduce all the financial facilities towards that borrower. The Bank, before the approval and during the term of the loan, at least annually at the reporting date, measures the creditworthiness of the counterparty as well as the quality and sufficiency of the collateral. During each counterparty's evaluation of creditworthiness, classification in a category and determination of credit limit, the financial information is examined quantitatively and qualitatively.

The most common practice used by the Bank to mitigate credit risk is requiring collaterals for loans and advances to customers. The major collateral types for loans and advances to customers are vessels, mortgages, cash collaterals and corporate or personal guarantees.

The collateral associated with a credit is initially evaluated during the credit approval process, based on their current or fair value and is reevaluated at regular intervals at least once a year.

Significant Increase in Credit Risk

The assessment of significant increase in credit risk is key in establishing the point of switching between the requirement to measure an allowance based on 12-month expected credit loss or based on lifetime ECL. If, following this assessment, a significant increase in credit risk occurs, the Bank recognize a loss allowance amount equal to the expected credit loss (ECL) amount over the life of that financial instrument.

Under IFRS 9 significant deterioration in a borrower's credit rating should be considered a factor of equal importance to its absolute credit rating. In compliance with the framework and for the purposes of stage allocation, the Bank uses a combination of the following criteria for the purposes of identifying a Significant Increase in Credit Risk (SICR):

a) **Relative Rate Threshold**. The Bank recognizes a significant increase in credit risk for exposures to borrowers that have been downgraded by two (2) or more notches since their initial recognition and as a result of such downgrade fall within the credit ratings five (5) and seven (7). Essentially, such exposures for which the Bank recognizes a significant increase in credit risk are classified to stage 2
b) **Forbearance**. All Forborne Performing Exposures (FPE) are classified as having a significant increase in credit risk.
c) **Backstop indicators**. Lending exposures that are overdue more than 30 days, are considered as exposures with Significant Increase in Credit Risk and are classified into Stage 2.

Expected Credit Loss Estimation

Loans and advances to customers

The bank assesses the impairment losses on individual facility level. Due to the small size and diversity of the Bank's loan portfolio, the individual calculation approach is deemed to be the most accurate and efficient for the Bank's needs. As such, the stage allocation and the expected credit loss calculation is conducted per borrower exposure. Notable exceptions are cases whereby certain exposures to a specific group are legally or commercially bound.
ECL is defined as the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows expected to be received (i.e., all cash shortfalls), discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets). All contractual cash flows of the loan and cash flows resulting from the sale of collateral or other credit enhancements are considered.

The Bank measures the ECL after classifying the companies under "Going Concern" or "Gone Concern" depending on their servicing capacity and financial standing while due to the nature of the business and the characteristics of the shipping loans (which usually include mortgaged ships and balloon payments due at maturity), the liquidation of the operating collateral (vessels) is considered in both cases as a source of repaying the loan and especially the final balloon payment.

The calculation of the expected future cash flows is carried out in accordance with two approaches Going Concern approach and Gone Concern approach.

Going Concern

"Going Concern" methodology is applied for cases of borrowers whose businesses continue to operate and are expected to remain operational in the foreseeable future. In such cases, their future operational cash flows along with potential cash flows from liquidation or refinancing of collaterals are taken into account when calculating ECL, as the Bank would reasonably expect to have a legal claim to those cash flows in the event of a default.

The Bank calculates the best possible estimation of the present value of the related recoverable amount, based on the following:

- Calculation of the obligor's net cash flow until the contractual maturity of the facility (lifetime impairment);
- Estimation of the collateral's residual market value. Customarily, the collateral comprises one or more vessels and the residual value is calculated by taking into account factors such as the asset's present market value and scrap value, and the historical correlation between asset prices and vessel earning levels, as well as by applying linear interpolations when necessary. A haircut is then applied on the calculated residual value so as to reflect potential refinancing or forced sale of the asset;

In calculating the factors above, certain assumptions are employed by the Bank, regarding the future generated income and present market value of the underlying assets, various operating expenses, interest rates, scrap metal prices etc. These assumptions are generally based on forward-looking and historical data available at the date when the estimates were made.

Additional factors, which are considered significant in affecting the debt servicing outcome (such as minimum liquidity / cash collateral requirement, other collateral, cash sweep provisions, fixed employment contracts, asset sale contracts, advanced negotiations for the restructuring of the repayment terms, potential contributions by the shareholders, etc.) are also incorporated in the aforesaid framework.

In cases whereby the contractual maturity of the relevant facility has expired, the impairment test horizon is usually set twelve (12) months from the test reference date, or at an earlier or later date which represents a reasonable time frame for the liquidation of the collateral depending on the case and the prevailing liquidation scenario.

Gone Concern

The "Gone Concern" methodology is applied to business which either have ceased their operations or their cash flows are significantly reduced to an extent, where they can no longer service any of their debt obligations.

In such cases, the Credit Risk Management Division "CRMD" does not take into account any future cash flows in its calculations. The estimated recovery amount is solely based on the present value of expected cash flows that stem from liquidation of connected collaterals taking into account the time and the liquidation costs.

Similarly to the expired facilities above, the impairment test horizon under the "Gone Concern" methodology is usually set twelve (12) months from the test reference date, or at an earlier or later date which represents a reasonable time frame for the liquidation of the collateral depending on the case and the prevailing liquidation scenario.

The time horizon over which the ECL of loans advances to customers is assessed depends on the stage where each lending exposure has been allocated to:

- Exposures that display neither significant increases in credit risk nor indications of impairment, and thus are classified in Stage 1, have their expected credit losses measured within a 12month time period.
- Exposures that display significantly increased credit risk (SICR), yet do not have any indications of impairment, are classified at Stage 2, and lifetime expected credit losses are estimated.
- Exposures that display objective evidence of impairment have their impairment losses measured through the calculation of Lifetime ECL.

For off- balance sheet exposures, the Bank calculates the exposure amount at risk calculated through an appropriate credit conversion factor (CCF) and subsequently, measures the expected credit loss through the aforementioned methods.

Macroeconomic Scenario Integration

According to IFRS 9 financial institutions should integrate available information about future economic developments into their ECL calculation. As such, the Bank bases its estimations of future cash flows on the weighted average of two scenarios (base – adverse), which express potential future developments in the Shipping Industry.

The Bank integrates future economic developments by using expected freight rates to estimate the impact on expected cash flows and collateral liquidation values. Market value of collateral is assessed either through straight line depreciation after taking into account the current market and scrap value of the ship or based on the income method after consideration of the spot and forward freight rates and their correlation with market values. For lifetime ECL calculations, the Bank estimates cash flows based on forward freight rates (1-year and 3-year) using interpolation methods for a period up to six (6) years. For periods above six (6) years, estimations are based on historical data of the market, as the Bank assumes that the freight market will converge back to its historical averages over extended periods of time.

Debt Securities

In compliance with the impairment requirement under IFRS 9, the Bank assesses the expected credit losses for each of the debt instruments. The time horizon over which the ECL is assessed depends on the stage where each debt instrument exposure has been allocated.

The amount of expected credit losses (ECL) recognized as an impairment loss allowance depends on the extent of credit deterioration since initial recognition. The assessment of significant deterioration is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL.

Debt instruments that display neither significant increases in credit risk nor indications of impairment, and thus are classified in Stage 1, have their expected credit losses measured within a 12month time period.

Debt instruments that display significantly increased credit risk (SICR), yet do not have any indications of impairment, are classified at Stage 2.

Debt instruments that display objective evidence of impairment have their impairment losses measured through the calculation of Lifetime ECL.

The risk parameters used to estimate ECL for the respective financial instruments are:

- **Exposure at Default**: represents the amount of book value or carrying amount at each reporting period
- **Loss Given Default (LGD):** represents the estimation of loss over the EAD at the default date. LGD for sovereign and corporate debt securities is taken from respective recovery rating tables provided by ECAIs, the Bloomberg, paper surveys, or based on historical data of the Bank
- **Probability of Default (PD):** represents the probability that a debt instrument will default over a period of time since the date of assessment (reporting date). There are two PD types that are used for the expected credit loss calculation, as shown below:
    - **12-month PD:** the PD of the shortest period between a period of 12 months and the maturity (if it matures earlier than 12 months) of the debt instrument. The 12-month PD is used for the estimation of the 12 month ECL on Stage 1.
    - **Lifetime PD:** the PD over the remaining lifetime of the debt instrument. The lifetime PD is used for the estimation of the lifetime ECL on Stage 2. Lifetime PD is the sum of the marginal PDs with the latter being the incremental probability of default in a specific time period.

Purchased or Originated Credit Impaired

Purchased or originated credit impaired financial assets ("POCI assets") are financial assets that are credit-impaired on initial recognition. The corresponding assessment for POCI-assets is performed at initial recognition instead of subsequent periods.

POCI assets are not subject to stage allocation and are always measured on the basis of lifetime expected credit losses.

Write-offs

- Where the Bank 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. After all the relevant investigations and legal required actions have been performed, the loan is written-off through the use of the allowance account.
- Write-offs are approved by the competent Credit Committee members and Bank's Board of Directors.

4.2.3 Expected Credit Loss for loans and advances to customers and for the off balance credit exposures

The following tables depict the expected credit loss per loan category, financial Guarantees and Undrawn commitments of the closing balance 31.12.2018 and the opening balance at 01.01.2018, based on the weighted probability of two different macroeconomic scenarios, as described above:

			31.12.2018	(€' 000)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	(335)	(360)	(7,055)	(7,750)
Loans and advances to corporate sector	(15)	-	-	(15)
Other loans & Staff loans	-	(4)	-	(4)
Total on Balance sheet Credit Losses	**(350)**	**(364)**	**(7,055)**	**(7,769)**
Financial Guarantees	-	-	-	-
Undrawn Commitments	-	-	-	-
Total off Balance sheet Credit Losses	**-**	**-**	**-**	**-**
Total Credit Losses	**(350)**	**(364)**	**(7,055)**	**(7,769)**

			01.01.2018	(€' 000)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	(974)	(429)	(8,426)	(9,829)
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	-	-	-	-
Total on Balance sheet Credit Losses	**(974)**	**(429)**	**(8,426)**	**(9,829)**
Financial Guarantees	-	-	-	-
Undrawn Commitments	(3)	-	-	(3)
Total off Balance sheet Credit Losses	**(3)**	**-**	**-**	**(3)**
Total Credit Losses	**(977)**	**(429)**	**(8,426)**	**(9,832)**

4.2.4 Gross Balances for loans and advances to customers and for the off balance credit exposures

The below table shows the gross amounts of the Bank's credit exposures for financial instruments at amortised cost as well as the off balance credit exposures as at as at 31 December 2018 and 01 January 2018.

			31.12.2018	(€' 000)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	106,977	23,679	26,511	157,167
Loans and advances to corporate sector	5,010	-	-	5,010
Other loans & Staff loans	481	1,400	-	1,882
Total Loans and advances to customers (on Balance sheet exposure)	**112,469**	**25,079**	**26,511**	**164,059**
Financial Guarantees	1,451	-	-	1,451
Undrawn Commitments	11,328	1,100	-	12,428
Total off Balance sheet Exposure	**12,779**	**1,100**	**-**	**13,879**
Total Exposure	**125,248**	**26,179**	**26,511**	**177,938**

			01.01.2018	(€' 000)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	88,667	24,064	32,803	145,534
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	369	-	-	369
Total Loans and advances to customers (on Balance sheet exposure)	**89,036**	**24,064**	**32,803**	**145,903**
Financial Guarantees	892	-	-	892
Undrawn Commitments	1,563	-	-	1,563
Total off Balance sheet Exposure	**2,455**	**-**	**-**	**2,455**
Total Exposure	**91,491**	**24,064**	**32,803**	**148,358**

The following table presents the Bank's maximum credit risk exposure as at 31 December 2018 and 31 December 2017, without including collateral held or other credit enhancements. For on-balance sheet items, credit exposures are based on their carrying amounts as reported in the statement of financial position.

	2018 €' 000	2017 €' 000
ASSETS		
Due from banks	61,653	50,439
Loans and advances to customers	156,290	137,671
Investment securities – available for sale	-	3,602
Investment securities – FVTOCI	13,667	-
Financial assets at fair value through P&L	14,553	21,719
Derivative financial instruments	224	889
Other assets	7,828	8,264
Maximum exposure from assets	**254,215**	**222,584**
OFF BALANCE SHEET ITEMS		
Undrawn commitments	12,428	1,563
Financial guarantees	1,451	892
Maximum exposure from off balance sheet items	**13,879**	**2,456**

4.2.5 Collaterals and guarantees

The collaterals are measured at fair value. When the value of the collateralized property exceeds the loan balance, the value of collateral is capped to the loan balance before allowance for impairment.

The below tables provide an analysis of the closing balance 31.12.2018 and the opening balance at 01.01.2018 of collaterals held for all stages of loans and advances to customers at amortized cost.

			31.12.2018	(€' 000)
Collateral amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	107,822	20,172	24,023	151,967
Loans and advances to corporate sector	-	1,400	-	1,400
Other loans & Staff loans	50	-	-	50
Total Loans and advances to customers	**107,872**	**21,572**	**24,023**	**153,417**

			01.01.2018	(€' 000)
Collateral amount	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	83,303	24,064	29,668	137,034
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	1,087	-	-	1,087
Total Loans and advances to customers	**84,389**	**24,064**	**29,668**	**138,121**

Breakdown of collateral and guarantees as at 31.12.2018

			31.12.2018	(€' 000)
	Real estate collateral	Financial collateral	Other collateral / Vessels	**Total value of collateral**
Collaterals and guarantees of loans and advances	8,414	41,861	103,142	**153,417**
Total	**8,414**	**41,861**	**103,142**	**153,417**

Breakdown of collateral and guarantees as at 31.12.2017

			31.12.2017	(€' 000)
	Real estate collateral	Financial collateral	Other collateral / Vessels	**Total value of collateral**
Collaterals and guarantees of loans and advances	8,400	34,837	94,884	**138,121**
Total	**8,400**	**34,837**	**94,884**	**138,121**

4.2.6 Concentration risk management

The concentration of exposure to credit risk can arise from two types of inadequate risk diversification within a portfolio: (a) group concentration and (b) sector concentration. Group concentration is associated with inadequate risk diversification arising from large exposure to individual groups of connected borrowing clients. The sector concentration arises from large exposures to customer groups affected by common factors such as the macroeconomic environment, industry activity, currency etc.

In order to comply with the regulatory limits, the Bank sets specific limits for concentration risk, mostly in group concentration. These limits are set in absolute terms (maximum exposure).

Credit risk concentration arising from a large exposure to a counterparty or group of connected clients whose probability of default depends on common risk factors, is monitored through the Large Exposures and Large Debtors reporting framework.

Finally, within the Internal Capital Adequacy Assessment Process (ICAAP), the Bank has adopted a methodology to measure the risk arising from concentration to economic sectors (sectoral concentration) and to individual companies (name concentration). Additional capital requirements are calculated, if necessary, and Pillar 1 capital adequacy is adjusted to ultimately take into account such concentration risks.

4.2.7 Loans and advances to customers

4.2.7.1 Credit quality of loans and advances to customers

The below tables present the closing balance 31.12.2018 and the opening balance at 01.01.2018 of quality analysis with IFRS 9 of impaired loans and advances to customers at amortized cost:

			31.12.2018	(€' 000)
Stage 1	**Satisfactory**	**Watchlist**	**Unrated**	**Total**
Loans and advances to shipping corporations	106,978	-	-	106,978
Loans and advances to corporate sector	5,010	-	-	5,010
Other loans & Staff loans	50	-	431	481
Total loans and advances to customers stage 1	**112,038**	**-**	**431**	**112,469**
Stage 2	**Satisfactory**	**Watchlist**	**Unrated**	**Total**
Loans and advances to shipping corporations	10,504	13,175	-	23,679
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	-	1,400	-	1,400
Total loans and advances to customers stage 2	**10,504**	**14,575**	**-**	**25,079**
Stage 3	**Satisfactory**	**Watchlist**	**Unrated**	**Total**
Loans and advances to shipping corporations	-	26,511	-	26,511
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	-	-	-	-
Total loans and advances to customers stage 3	**-**	**26,511**	**-**	**26,511**
Total Loans and advances to customers	**122,542**	**41,086**	**431**	**164,059**

			01.01.2018	(€' 000)
Stage 1	**Satisfactory**	**Watchlist**	**Unrated**	**Total**
Loans and advances to shipping corporations	87,580	-	-	87,580
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	1,087	-	369	1,456
Total loans and advances to customers stage 1	**88,667**	**-**	**369**	**89,036**
Stage 2	**Satisfactory**	**Watchlist**	**Unrated**	**Total**
Loans and advances to shipping corporations	12,044	12,020	-	24,064
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	-	-	-	-
Total loans and advances to customers stage 2	**12,044**	**12,020**	**-**	**24,064**
Stage 3	**Satisfactory**	**Watchlist**	**Unrated**	**Total**
Loans and advances to shipping corporations	-	32,803	-	32,803
Loans and advances to corporate sector	-	-	-	-
Other loans & Staff loans	-	-	-	-
Total loans and advances to customers stage 3	**-**	**32,803**	**-**	**32,803**
Total Loans and advances to customers	**100,711**	**44,823**	**369**	**145,903**

The below table presents the quality analysis of impaired loans and advances to customers at amortized cost on an individual or collective basis:

31.12.2018 (€' 000)

	Stage 1		Stage 2		Stage 3	
	Individually	**Collective**	**Individually**	**Collective**	**Individually**	**Total**
Shipping Loans	10,367	96,611	13,175	10,504	26,511	**157,167**
Corporate Loans	5,010	-	-	-	-	**5,010**
Other loans & Staff loans	481	-	-	1,400	-	**1,882**
Total (Loans and advances to customers on balance sheet exposure)	**15,858**	**96,611**	**13,175**	**11,905**	**26,511**	**164,059**

The below tables present the comparative figures of credit quality of Loans and advances to customers impaired and neither past due nor impaired as at 31.12.2017 based on IAS 39:

31.12.2017 (€' 000)

	Neither past due nor impaired	Impaired	Total Before Allowance for impairment	Allowance for impairment	**Total**	Value of collateral
Loans and advances to shipping Corporations	115,490	28,956	**144,446**	(8,232)	**136,215**	138,121
Loans and advances to corporate sector	-	-	**-**	-	**-**	-
Other loans and staff loans	1,456	-	**1,456**	-	**1,456**	**-**
Total	**116,946**	**28,956**	**145,902**	**(8,232)**	**137,671**	**138,121**

31.12.2017 (€' 000)

	Satisfactory risk	Watch list or substandard	Total neither past due nor impaired	Value of Collateral
Loans and advances to shipping corporations	99,594	15,896	**115,490**	112,330
Loans and advances to corporate sector	-	-	**-**	-
Other loans and staff loans	250	1,205	**1,456**	-
Total	**99,844**	**17,102**	**116,946**	**112,330**

4.2.7.2 Credit quality of forborne loans and advances to customers at amortised cost

31.12.2018 (€' 000)

	Loans and Advances to customers at amortised cost	**Forborne Loans and Advances to customers at amortised cost**	**% of Forborne Loans and Advances to customers at amortised cost**
Stage 1	112,469	-	0%
Stage 2	25,079	10,744	43%
Stage 3	26,511	9,853	37%
Total Gross exposure	**164,059**	**20,597**	**13%**
Stage 1 ECL allowance	(350)	-	0%
Stage 2 ECL allowance	(364)	(208)	57%
Stage 3 ECL allowance	(7,055)	(614)	9%
Total ECL allowance	**(7,769)**	**(823)**	**11%**
Stage 1	112,119	-	0%
Stage 2	24,715	10,536	43%
Stage 3	19,456	9,238	47%
Total Loans and advances to customers at amortised cost (net)	**156,290**	**19,774**	**13%**
Value of collateral	153,391	20,618	13%

31.12.2017 (€' 000)

	Total amount of Loans and Advances to customers	Total amount of Forborne Loans and Advances to customers	% of Forborne Loans and Advances to customers
Neither past due nor impaired	116,947	-	0%
Past due but not impaired	-	-	-
Impaired	28,956	17,166	59%
Total Gross exposure	**145,903**	**17,166**	**12%**
impairment allowance	(8,232)	(729)	9%
Total Allowance for impairment	**(8,232)**	**(729)**	**9%**
Total Loans and advances to customers (net)	**137,670**	**16,437**	**12%**
Collateral received	138,121	17,146	12%

	Forborne L&A to customers at amortised cost at 31/12/2018	Forborne L&A to customers at 31/12/2017
Opening balance under IAS 39 (net)	**16,437**	**24,395**
Reclassification for IFRS 9 FTA Impact	-	-
Re-measurement for IFRS 9 FTA Impact	(167)	-
Opening balance under IFRS 9 (net)	**16,270**	**24,395**
Forbearance measures during the year	5,051	17,029
Repayment of loans and advances (partial or total)	(1,307)	(11,991)
Loans and advances that exited forbearance status	-	(12,404)
ECL allowance / Allowance for Impairment	73	(729)
Foreign exchange differences and other movements	(313)	137
Closing balance (net)	**19,774**	**16,437**

	Forborne L&A to customers at amortised cost at 31/12/2018	Forborne L&A to customers at 31/12/2017
Loans to shipping corporations	18,378	16,437
Other Loans & Staff Loans	1,396	-
Total Loans and advances to customers (net)	**19,774**	**16,437**

4.2.7.3 Ageing analysis of loans and advances to shipping corporations

Shipping corporations			**31.12.2018**	(€' 000)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Performing	106,977	23,679	9,853	140,509
1-30 days	-	-	9	9
31-60 days	-	-	8	8
61-90 days	-	-	42	42
91-180 days	-	-	28	28
Past due Over 180 days	-	-	16,572	16,572
Total	**106,977**	**23,679**	**26,511**	**157,167**

Gross Loan and advances to corporate sector amounted €5,010 thousands and Gross Other Loans and staff Loans amounted €1,882 thousands are performing.

The table below represents the ageing analysis of impaired loans and advances to customers for shipping corporations as of 31 December 2017.

	31/12/2017 (€' 000)
	Total Impaired Loans and advances to shipping corporations
Performing	10,994
1-30 days	1,577
31-60 days	14
61-90 days	-
91-180 days	31
Past due over 180 days	16,340
Total	**28,956**

There are no past due but not impaired loans and advances at the end of the reporting period.

4.2.7.4 Interest income recognized by quality of loans and advances to customers

				31.12.2018 (€' 000)
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and advances to shipping corporations	6,920	1,473	1,691	10,084
Loans and advances to corporate sector	9	-	-	9
Other loans and staff loans	9	54	-	63
Total	**6,937**	**1,527**	**1,691**	**10,156**

			31.12.2017 (€' 000)
	Interest Income on Neither past due nor impaired Loans	Interest Income on impaired Loans	Total interest income on loans
Loans and advances to shipping corporations	8,596	704	9,300
Loans and advances to corporate sector	-	-	-
Other loans and staff loans	73	-	73
Total interest Income	**8,669**	**704**	**9,373**

4.2.7.5 Movement of loans and advances to customers

The tables below present the movement in stages of gross loans and advances to customers for the year:

Movement of Loans and advances to customers stage 1	**31.12.2018** (€'000)
Stage 1 Gross Loans and advances to Customers 31.12.2017	89,036
Gross Loans and advances to customers 01.01.2018 (IFRS 9)	**89,036**
Repayments	(40,456)
New Loans / Additions	61,635
Transfer from stage 1 to stage 2 Gross Loans	(4,480)
Transfer from stage 1 to stage 3 Gross Loans	-
Transfer from stage 2 to stage 1 Gross loans	-
Transfer from stage 3 to stage 1 Gross Loans	-
Write off	-
Interest Income	6,937
FX difference	(203)
Total gross amount of Loans and advances to customers 31.12.2018, Stage 1	**112,469**

Movement of Loans and advances to customers stage 2	**31.12.2018 (€' 000)**
Stage 2 Gross Loans and advances to Customers 31.12.2017	24,064
Gross Loans and advances to customers 01.01.2018 (IFRS 9)	**24,064**
Repayments	(5,401)
New Loans / Additions	493
Transfer from stage 1 to stage 2 Gross Loans	4,480
Transfer from stage 3 to stage 2 Gross Loans	-
Transfer from stage 2 to stage 1 Gross loans	-
Transfer from stage 2 to stage 3 Gross Loans	-
Write off	-
Interest Income	1,527
FX difference	(84)
Total gross amount of Loans and advances to customers 31.12.2018, Stage 2	**25,079**

Movement of Loans and advances to customers stage 3	**31.12.2018 (€'000)**
Stage 3 Gross Loans and advances to Customers 31.12.2017	32,803
Gross Loans and advances to customers 01.01.2018 (IFRS 9)	**32,803**
Repayments	(10,199)
New Loans / Additions	3,754
Transfer from stage 1 to stage 3 Gross Loans	-
Transfer from stage 2 to stage 3 Gross Loans	-
Transfer from stage 3 to stage 1 Gross loans	-
Transfer from stage 3 to stage 2 Gross Loans	-
Write off	(1,466)
Interest Income	1,691
FX difference	(72)
Total gross amount of Loans and advances to customers 31.12.2018, Stage 3	**26,511**

The tables below present the movement in stages of ECL of loans and advances to customers for the year:

Movement of ECL stage1	**31.12.2018 (€'000)**
Impairment amount under IAS 39	-
Remeasurement of impairment ECL (IFRS 9)	(974)
ECL of Loans and advances to customers 01.01.2018 (IFRS 9)	**(974)**
Transfer from stage 1 to stage 2 ECL	483
Transfer from stage 1 to stage 3 ECL	-
Transfer from stage 2 to stage 1 ECL	-
Transfer from stage 3 to stage 1 ECL	-
Reversal of provisions	385
Additional provisions	(243)
Write off	-
FX difference	(42)
ECL of Loans and advances to customers 31.12.2018, Stage 1	**(392)**

Movement of ECL stage2	**31.12.2018 (€'000)**
Impairment amount under IAS 39	-
Remeasurement of impairment ECL (IFRS 9)	(429)
ECL of Loans and advances to customers 01.01.2018 (IFRS 9)	**(429)**
Transfer from stage 1 to stage 2 ECL	(483)
Transfer from stage 3 to stage 2 ECL	-
Transfer from stage 2 to stage 1 ECL	-
Transfer from stage 2 to stage 3 ECL	-
Reversal of provisions	759
Additional provisions	(145)
Write off	-
FX difference	(24)
ECL of Loans and advances to customers 31.12.2018, Stage 2	**(322)**

Movement of ECL stage 3	**31.12.2018** (€'000)
Impairment amount under IAS 39	(8,232)
Remeasurement of impairment ECL (IFRS 9)	(194)
ECL of Loans and advances to customers 01.01.2018 (IFRS 9)	**(8,426)**
Transfer from stage 1 to stage 3 ECL	-
Transfer from stage 2 to stage 3 ECL	-
Transfer from stage 3 to stage 1 ECL	-
Transfer from stage 3 to stage 2 ECL	-
Reversal of provisions	1,722
Additional provisions	(1,589)
Write off	1,466
FX difference	(228)
ECL of Loans and advances to customers 31.12.2018, Stage 3	**(7,055)**

The table below presents the movement of impaired loans and advances to customers as of 31.12.2017

	2017 (€' 000) Loans and advances to shipping Corporations
Gross opening balance 1.1	**28,480**
New loans Impaired	**7,348**
Repayments	(156)
Transferred to neither past due nor Impaired	(4,127)
Impaired L&As written-off	(347)
Foreign exchange differences and other movements	(2,241)
Gross balance as at 31.12	**28,956**
Impairment allowance (Balance)	(8,232)
Re-classification for IFRS 9 FTA impact	(1,600)
Net balance as at 31.12	**19,124**

<u>4.2.8 Bond portfolios</u>

The table below presents an analysis of the Bank's bond portfolios, using the higher of the two lower rating of Moody's, Standard & Poor's and Fitch as at 31 December 2018 and 2017:

Bond portfolios as at

		31.12.2018	(€' 000)
	At Fair Value Through OCI	At Fair Value Through P&L	Total
A- till AAA	10,300	14,254	**24,554**
B- till BBB+	704	-	**704**
C- till CCC+	758	-	**758**
Unrated	1,905	299	**2,204**
Total interest Income	**13,667**	**14,553**	**28,220**

		31.12.2017	(€' 000)
	Available For Sale	At Fair Value Through P&L	Total
A- till AAA	-	21,719	21,719
B- till BBB+	602	-	602
C- till CCC+	1,081	-	1,081
Unrated	1,919	-	1,919
Total interest Income	**3,602**	**21,719**	**25,321**

4.3 Liquidity risk

Liquidity Risk is the current or prospective risk that a financial institution will not be able to meet its obligations as they become due, because of lack of required liquidity.

The Assets and Liabilities Committee (ALCO) monitors the gap in maturities between assets and liabilities as well as the funding requirements based on various assumptions, including conditions that might have an adverse impact on the Bank's ability to liquidate investments and trading positions and the ability to access capital markets.

In general, liquidity risk analysis relates to the financial, operating and investing activities of the Bank. This risk involves both the risk of unexpected increases in the cost of funding the portfolio of assets at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

For the Bank, the main resources which ensure liquidity are customers' deposits, interbank credit lines and ECB funding. Effective liquidity risk management enables the Bank to comfortably fulfill its client needs and to meet all its payment obligations.

The contractual undiscounted cash outflows are presented in the table below:

Contractual undiscounted cash outflow as at 31.12.2018

(€' 000)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Due to banks	16,743	5,480	10,326	-	-	32,549
Due to customers	80,916	52,565	8,029	3,435	-	144,945
Derivatives financial instruments	120	-	-	-	-	120
Total on balance sheet	**97,779**	**58,045**	**18,355**	**3,435**	**-**	**177,614**
Off Balance sheet (Loan Commitments)	7,945	4,483	-	-	-	12,428
Total (On & Off Balance sheet)	**105,724**	**62,528**	**18,355**	**3,435**	**-**	**190,043**

Contractual undiscounted cash outflow as at 31.12.2017

(€' 000)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Due to banks	14,195	-	-	-	-	14,195
Due to customers	85,140	34,020	7,463	4,307	-	130,931
Derivatives financial instruments	38	-	-	-	-	38
Total on balance sheet	**99,373**	**34,020**	**7,463**	**4,307**	**-**	**145,164**
Off Balance sheet (Loan Commitments)	1,563	-	-	-	-	1,563
Total (On & Off Balance sheet)	**100,936**	**34,020**	**7,463**	**4,307**	**-**	**146,727**

4.4 Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not related to changes in the obligor's credit standing), will affect the Bank's income or the value of its financial instruments.
Specifically for the Bank, market risk is further analyzed in the following risks:

- Risk from the change in bond prices classified as FVTOCI.
- Interest rate risk arising from transactions in bonds that are classified as FVTOCI.
- Interest rate risk arising from interest rate swaps.
- Foreign exchange risk arising from transactions in outright FX forwards.

4.4.1 Interest rate risk

Interest rate risk is the current or prospective risk to earnings (Net Interest Income) and capital arising from adverse movements in interest rates affecting the banking book positions. Assets and liabilities are analyzed with respect to interest rate risk (gap analysis). Assets and liabilities are categorized into time periods (gaps) by either contractual repricing in the case of variable interest rate instruments or maturity date in the case of fixed interest rate instruments.

Interest Rate Risk as at 31.12.2018

(€' 000)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with Central Bank	8,465	-	-	-	-	-	**8,465**
Due from banks	61,653	-	-	-	-	-	**61,653**
Loans and advances to customers	61,001	103,444	12	419	7	(8,593)	**156,290**
Investment securities – FVTOCI	608	5,248	7,811	-	-	-	**13,667**
Financial assets at fair value through P&L	-	14,254	-	-	299	-	**14,553**
Other remaining assets	-	-	-	-	-	16,489	**16,489**
TOTAL ASSETS	**131,727**	**122,946**	**7,823**	**419**	**306**	**7,896**	**271,116**
LIABILITIES							
Due to banks	16,733	5,478	10,125	-	-	-	**32,336**
Due to customers	81,325	54,765	7,887	-	-	1,870	**145,847**
Other remaining liabilities	-	-	-	-	-	3,553	**3,553**
TOTAL LIABILITIES	**98,058**	**60,243**	**18,012**	**-**	**-**	**5,423**	**181,736**
Total interest sensitivity gap	**33,669**	**62,703**	**(10,189)**	**419**	**306**	**2,473**	**89,380**

The measurement of Interest Rate Risk sensitivity of the Bank's Statement of Financial Position items in respect to a parallel shift of 100bp in interest rates showed no material effect on the net position of the Bank because most of the Bank's interest bearing assets and liabilities are floating rate instruments with contractual repricing period of less than 12 months.

Interest Rate Risk as at 31.12.2017

(€' 000)	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Non-interest bearing	Total
ASSETS							
Cash and balances with Central Bank	8,404	-	-	-	-	-	**8,404**
Due from banks	50,439	-	-	-	-	-	**50,439**
Loans and advances to customers	64,227	81,690	8	382	-	(8,635)	**137,671**
Investment securities – available for sale	42	454	-	2,504	602	-	**3,602**
Financial assets at fair value through P&L	-	-	-	-	21,719	-	**21,719**
Other remaining assets	-	-	-	-	-	16,061	**16,061**
TOTAL ASSETS	**123,112**	**82,143**	**8**	**2,886**	**22,321**	**7,426**	**237,896**
LIABILITIES							
Due to banks	14,194	-	-	-	-	-	**14,194**
Due to customers	87,862	37,536	4,909	-	-	284	**130,592**
Other remaining liabilities	-	-	-	-	-	2,995	**2,995**
TOTAL LIABILITIES	**102,056**	**37,536**	**4,909**	**-**	**-**	**3,279**	**147,781**
Total interest sensitivity gap	**21,056**	**44,607**	**(4,901)**	**2,886**	**22,321**	**4,147**	**90,115**

4.4.2 Foreign exchange risk

The Management of the Bank has set low limits for foreign exchange exposure, which are monitored daily. The Bank's open foreign exchange position is mainly in US Dollars because of its specialized activity. The Bank files standard foreign exchange position reports on a regular basis enabling the Central Bank to monitor its foreign exchange risk.

The foreign exchange position of the Bank as at 31 December 2018 and 31 December 2017 respectively is as follows:

Foreign exchange position as at 31.12.2018

(€' 000)	USD	EURO	OTHER	TOTAL
ASSETS				
Cash and balances with Central Bank	231	8,120	114	8,465
Due from banks	3,211	55,741	2,701	61,653
Loans and advances to customers	146,486	9,804	-	156,290
Investment securities – FVTOCI	-	13,667	-	13,667
Financial assets at fair value through P&L	733	13,820	-	14,553
Other remaining assets	109	16,379	-	16,489
TOTAL ASSETS	**150,770**	**117,531**	**2,815**	**271,116**
LIABILITIES				
Due to banks	7,871	24,465	-	32,336
Due to customers	86,412	57,450	1,985	145,847
Other remaining liabilities	14	3,540	-	3,554
TOTAL LIABILITIES	**94,297**	**85,455**	**1,985**	**181,736**
Net balance sheet position	**56,473**	**32,076**	**830**	**89,380**
Off balance sheet net notional position	(41,974)	42,193	(219)	-
Total FX position	**14,499**	**74,269**	**611**	**89,380**

The measurement of foreign exchange risk sensitivity of the Bank's Statement of Financial Position items in respect to a parallel shift of 1% in foreign currency rates showed no material effect on the net position of the Bank.

Foreign exchange position as at 31.12.2017

(€' 000)	USD	EURO	OTHER	TOTAL
ASSETS				
Cash and balances with Central Bank	269	8,110	25	8,404
Due from banks	12,894	35,093	2,452	50,439
Loans and advances to customers	133,149	4,522	-	137,671
Investment securities – available for sale	-	3,602	-	3,602
Financial assets at fair value through P&L	-	21,719	-	21,719
Other remaining assets	498	15,563	-	16,061
TOTAL ASSETS	**146,810**	**88,609**	**2,477**	**237,896**
LIABILITIES				
Due to banks	4,194	10,000	-	14,194
Due to customers	81,717	46,866	2,009	130,592
Other remaining liabilities	34	2,961	-	2,995
TOTAL LIABILITIES	**85,945**	**59,827**	**2,009**	**147,781**
Net balance sheet position	**60,865**	**28,782**	**468**	**90,115**
Off balance sheet net notional position	(60,907)	60,962	(55)	-
Total FX position	**(42)**	**89,744**	**413**	**90,115**

4.5 Fair value of financial assets and liabilities not measured at fair value

The following methods and assumptions were used to estimate the fair values of the Bank's financial instruments at 31 December 2018 and 2017:

Cash and balances with Central Bank, due from and due to banks: The carrying amount of cash and balances with Central Bank and due from-to banks approximates their fair value.

Loans and advances to customers: According to IFRSs, the fair value of loans is estimated using discounted cash flow models. The discount rates are based on current market interest rates offered for loans with similar terms to borrowers of similar credit quality. This category is carried at amortized cost. Substantially all the loans and advances of the Bank are at floating rates of interest, which re-price at frequent intervals. A number of them have considerable amount of unamortized discount. Therefore the Bank has no significant exposure to fair value fluctuations and the carrying value of the loans and advances to customers approximates its fair value.

Due to customers: The fair value for demand deposits and deposits with no defined maturity is determined to be the amount payable on demand at the reporting date. The fair value for fixed maturity deposits is estimated using discounted cash flow models based on rates currently offered for relevant product types with similar remaining maturities. The carrying amount of term deposits approximates their fair value because the re-pricing date of their interest rate is too short and reflects the current interest rates of the market.

4.6 Financial assets and liabilities measured at fair value

Determining the fair value of financial instruments
The Bank measures the fair value of its financial instruments based on the framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market. An active market is a market in which transactions for assets or liabilities take place with sufficient frequency and volume, provide pricing information on an ongoing basis and are characterized with low bid/ask spreads.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain over-the-counter (OCT) derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

31 December 2018

(€' 000)	Level-1	Level-2	Level-3	Total
ASSETS				
Investment securities – FVTOCI	13,667	-	-	**13,667**
Financial assets - fair value through P&L	14,553	-	-	**14,553**
Derivatives	90	134	-	**224**
TOTAL ASSETS	**28,310**	**134**	-	**28,444**
LIABILITIES				
Derivatives	111	9	-	**120**
TOTAL LIABILITIES	**111**	**9**	**-**	**120**

31 December 2017

(€' 000)	Level-1	Level-2	Level-3	Total
ASSETS				
Investment securities – available for sale	3,602	-	-	**3,602**
Financial assets - fair value through P&L	21,719	-	-	**21,719**
Derivatives	614	275	-	**889**
TOTAL ASSETS	**25,935**	**275**	**-**	**26,210**
LIABILITIES				
Derivatives	-	38	-	**38**
TOTAL LIABILITIES	**-**	**38**	**-**	**38**

4.7 Capital adequacy

The Bank has implemented the new regulatory framework CRDIV (Basel III implementation under EU rules), which came into force with Directive 2013/36/EU and Regulation (EU) No. 575/2013.

The new regulatory framework requires financial institutions to maintain a minimum level of regulatory capital related to the undertaken risks. The minimum capital adequacy ratios, as per article 92 of the CRR, are as follows:

- Common Equity Tier 1 Ratio (CET1 Ratio): 4.5%
- Tier 1 Ratio (Tier 1): 6%
- Total Capital Ratio (CAD Ratio): 8%

Based on Council Regulation 1024/2013, the Central Bank conducts annually a Supervisory Review and Evaluation Process (SREP), in order to define the prudential requirements of the institutions under its supervision, by defining a total SREP capital requirement. Following the conclusion of the SREP for year 2016, the Central Bank informed ABBank of its total capital requirement, valid from January 1st 2017. According to the decision, the Bank has to maintain, Common Equity Tier 1 Ratio (CET1 Ratio) at least 8% and Total Capital Ratio (CAD Ratio) at least 11.19%.

The Bank actively manages its capital base by taking advantage of the contemporary means for raising capital, with the objective to sustain its capital adequacy ratios well above the minimum regulatory levels and, at the same time, to improve the weighted average cost of capital to the benefit of its shareholders. In this framework, both the calculation of the capital requirements and the dynamic management of the capital base are embedded in the business plan and the annual budgeting processes. The risk-weighted assets arise from the credit risk of the banking book and the market risk of the trading book as well as the operational risk.

The current capital ratios (Tier I ratio and capital adequacy ratio) are greater than the regulatory limits set by the relevant directive and the capital base is capable of supporting the business growth of the Bank in all areas for the next years. For the calculation of regulatory capital, own share capital must undergo some regulatory adjustments, such as the deduction of intangible assets. The regulatory capital of the Bank, as defined by the Bank of Greece is comprised of two tiers, Tier I and Tier II capital. AB Bank has only Tier I capital.

Presented below, are the year-end capital adequacy ratios of 2018 and 2017. The figures have been calculated using CRD IV rules.

	2018 €' 000	2017 €' 000
Tier I capital		
Share capital	37,980	37,980
Share premium	50,207	50,207
Retained earnings	852	1,599
Statutory reserve	623	623
Reserve from remeasurement of the defined benefit obligations	(270)	(252)
Available for sale reserve	-	(42)
OCI reserve	(13)	-
	89,380	**90,115**
Regulatory adjustments on Tier I capital		
Less: intangible assets	(1,117)	(915)
Less : other adjustments	(1,415)	(1,087)
Total regulatory adjustments on Tier I capital	**(2,532)**	**(2,002)**
Total Core Tier I capital	**86,848**	**88,113**
Risk weighted assets		
Risk weighted assets (credit risk)	200,382	182,135
Risk weighted assets (market risk)	9,877	11,178
Risk weighted assets (operational risk)	17,318	18,407
Total Risk Weighted Assets	**227,577**	**211,720**
Common Equity Tier 1 Ratio (CET1)	**38.16%**	**41.62%**
Tier 1 Ratio (T1)	**38.16%**	**41.62%**
CAD Ratio	**38.16%**	**41.62%**

It should be noted that the disclosure as regulatory requirement, regarding capital adequacy and risk management information, imposed by Bank of Greece Directive 2655/16.3.2012 in relation to Pillar III, will be updated on the web site www.aegeanbalticbank.com upon its completion.

Note 5: Net interest income

	2018 €' 000	2017 €' 000
Interest and similar income		
Measured at FVTOCI and held for trading securities	258	79
Interest due from banks	773	84
Interest from loans and advances to customers	10,156	9,373
Other	31	85
Total Interest and similar income	**11,218**	**9,621**
Interest expense and similar charges		
Interest due to customers	(1,612)	(1,189)
Interest due to banks	(347)	(222)
Total Interest expense and similar charges	**(1,959)**	**(1,411)**
Net interest income	**9,259**	**8,211**

Note 6: Net fee and commission income

The following table includes net fees and commission income from contracts with customers in the scope of IFRS 15, disaggregated by major type of industries.

	2018 €' 000		
	Shipping Corporations	Other sectors	Total
Fees and commission income			
Loan origination fees and commissions	1,090	52	**1,142**
Funds transfers	998	25	**1,023**
Other	69	16	**85**
Total Fees and commission income	**2,157**	**93**	**2,250**
Fees and commission expense			
Banks	-	(164)	**(164)**
Other	11	(127)	**(116)**
Total Fees and commission expense	**11**	**(292)**	**(280)**
Net fee and commission income	**2,168**	**(198)**	**1,970**

	2017 €' 000		
	Shipping Corporations	Other sectors	Total
Fees and commission income			
Loan origination fees and commissions	1,220	4	**1,224**
Funds transfers	937	16	**953**
Other	-	62	**62**
Total Fees and commission income	**2,157**	**82**	**2,238**
Fees and commission expense			
Banks	-	(121)	**(121)**
Other	-	(74)	**(74)**
Total Fees and commission expense	**-**	**(195)**	**(195)**
Net fee and commission income	**2,157**	**(113)**	**2,043**

The Bank's main activity is the contracting and management of syndicated loans to shipping companies in which the Bank also participates. The result of the Bank's main activity is the collection of commissions for both the contracting of the syndicated loans as an arranger, as an agent and as a participant to the loan.

The commissions received by the Bank as a participant in the syndicated loans are capitalized, then amortized over the life of the loan with the effective interest rate method and included in the interest from loans and advances to customers.

The commissions received by the Bank and amortized over the life of the financial instrument with the effective interest rate method are for the year 2018 € 739 thousands (€ 246 thousands for 2017).

The commissions received by the Bank as an arranger and as an agent are recognized in the income statement when collected.

Note 7: Net result from derivatives and investment securities

	2018 €' 000	2017 €' 000
Foreign exchange contracts and derivatives	(1,534)	(1,416)
Net results from sale of financial available for sale	-	79
Net results from sale of financial assets measured at FVTOCI	27	-
Net results from sale of financial assets measured at FVTPL	37	-
Net result from financial instruments at fair value through profit or loss	(71)	(38)
Net trading income	**(1,541)**	**(1,375)**

Included within the net results from foreign exchange contracts and derivatives are gains and losses from derivative contracts (FX swap) and futures committed for economic hedge purposes.

Note 8: Personnel expenses

	2018	2017
	€' 000	€' 000
Wages and salaries	(4,411)	(4,525)
Social security contributions	(880)	(839)
Defined contribution plans	(137)	(124)
Defined benefit plans (see Note 29)	(115)	(105)
Other	(360)	(352)
Personnel expenses	**(5,903)**	**(5,945)**

The number of employees of the Bank at 31 December 2018 was 82 (81 as at 31 December 2017). The average number of employees for the period 1 January 2018 to 31 December 2018 was 81 (78 for the year 2017).

Note 9: General administrative expenses

	2018	2017
	€' 000	€' 000
Rental expense for buildings	(92)	(86)
Rental expense for cars	(90)	(72)
Third party fees	(984)	(842)
IT expense	(556)	(459)
Telecommunication – mail expense	(125)	(112)
Promotion and advertising expense	(86)	(21)
Office material	(28)	(43)
Utilities	(93)	(103)
Taxes and duties	(385)	(312)
Maintenance and other related expenses	(89)	(72)
Subscription expenses	(37)	(42)
Contributions	(174)	(164)
Officers and directors insurance	(97)	(106)
Other general administrative expenses	(289)	(221)
General and administrative expenses	**(3,125)**	**(2,655)**

Note 10: Depreciation and amortization

	2018	2017
	€' 000	€' 000
Property and equipment	(372)	(362)
Intangible assets	(297)	(217)
Depreciation and amortization	**(669)**	**(579)**

Note 11: Impairment losses on loans and advances

Impairment losses on loans and advances movement:

	2018	2017
	€' 000	€' 000
Balance as at 1 January	**(8,232)**	**(7,409)**
Re-classification for IFRS 9 FTA impact	(1,600)	-
Balance as at 1 January after IFRS 9 FTA impact	**(9,832)**	**(7,409)**
Impairment losses on loans and advances for the year	(2,003)	(1,776)
Amounts recovered	2,894	215
Effect of foreign currency movements	(294)	505
Impairment losses/gains on loans and advances charged in Income statement	**597**	**(1,056)**
Loans written off	1,466	233
Balance as at 31 December	**(7,769)**	**(8,232)**

Note 12: Income tax

	2018 €' 000	2017 €' 000
Income tax for the year	-	-
Deferred income tax	(197)	384
Income tax	**(197)**	**384**

The calculation of the income tax expense is as follows:

Profit / (Loss) before tax	**587**	**(1,342)**
Tax calculation at 29%	(170)	389
Non tax deductible expenses	(9)	(15)
Impact of tax change rate on Deferred Tax	-	-
Other	(18)	10
Income tax	**(197)**	**384**

The corporate tax rate is 29% for both years 2018 and 2017.
Further information concerning the income tax contingent liabilities is presented in Note 32.
According to Greek tax legislation, losses can be carried forward and off-set against future gains over the next 5 years.
There amount of tax loss carried forward by the Bank at 31.12.2018 is €370 thousands (€ 1,364th at 31.12.2017).
Further information concerning deferred tax is presented in Note 22.

Note 13: Cash and balances with Central Bank

	2018 €' 000	2017 €' 000
Cash in hand	615	743
Balance with Central Bank	7,850	7,661
Cash and balances with Central Bank	**8,465**	**8,404**

The Bank is required to maintain a current account with the Central Bank of Greece (BoG) to facilitate interbank transactions with the BoG, its member banks, and other financial institutions through the TARGET system (Trans-European Automated Real-Time Gross Settlement Express Transfer).

BoG requires all banks established in Greece to maintain deposits with BoG equal to 1% of total customer deposits as these are defined by the European Central Bank. From 1 January 2001 these deposits bear interest at the refinancing rate as set by the ECB (0.00% at 31.12.2018). It is at the Bank's discretion to withdraw the total amount of the balance with Central Bank under the condition that the average balance during the period (month) will not be less than the minimum required amount. As at 31.12.2018 the minimum required amount of the Bank amounts to € 1,373 thousands (At 31.12.2017, € 1,170 thousands).

Note 14: Cash and cash equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following outstanding balances as at 31.12.2018 and 31.12.2017:

	2018 €' 000	2017 €' 000
Cash on hand	615	743
Non-restricted placements with Central Bank,	7,850	7,661
Short-term balances due from banks	61,654	50,439
Cash and cash equivalents	**70,119**	**58,843**

All Short-term balances due from banks are classified as stage 1. The ECL is below €1 thousand.

Note 15: Due from banks

	2018 €' 000	2017 €' 000
Current accounts	11,633	13,432
Money Market Placements	50,020	37,007
Due from banks	**61,653**	**50,439**

Included within Current accounts is restricted amount €5,683 thousands (31.12.2017: €6,227 thousands) related to guarantees provided to credit institutions for swaps.

Note 16: Loans and advances to customers

	2018 €' 000	2017 €' 000
Loans and Advances to shipping corporations at amortized cost	149,418	136,215
Loans and advances to corporate sector	4,995	-
Other Loans and staff loans	1,877	1,456
	156,290	**137,671**

There are no loans and advances to customers that have been pledged as collateral.

Loans and advances to customers are analyzed:		**2018 €' 000**	
	Gross amount €' 000	Impairment amount €' 000	Net amount €' 000
Loans and Advances to shipping corporations	157,169	(7,750)	149,418
Loans and advances to corporate sector	5,010	(15)	4,995
Other Loans and staff loans	1,881	(4)	1,877
	164,059	**(7,769)**	**156,290**

		2017 €' 000	
	Gross amount €' 000	Impairment amount €' 000	Net amount €' 000
Loans and Advances to shipping corporations at amortized cost	144,447	(8,232)	136,215
Other Loans and staff loans	1,456	-	1,456
	145,903	**(8,232)**	**137,671**

During 2018, the Bank made a debt restructuring of Danaos Shipping company loan. The restructuring of the loan included a debt to equity transaction. During the reduction of the loan there was a parallel issue of the lender's equity to the Bank. The transaction resulted to minority shareholding of the Bank over the borrower.

The table below represents the debt to equity transaction between AB-Bank and Danaos shipping company:

		2018 €'000	
Company	**% Holding**	**Date of acquisition**	**Cost of acquisition**
Danaos Corporation	1%	10/8/2018	736

Note 17: Investment securities – FVTOCI

Analysis per Issuer for the year ended 31.12.2018

			2018 €'000	
Investment securities at FVTOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Domestic Corporate Entities Bonds	3,325	42	-	3,367
Foreign Government Bonds	10,300	-	-	10,300
Total Investment securities at FVTOCI	**13,625**	**42**	**-**	**13,667**

Movement in Gross Carrying amount of investment securities

Investment securities at FVTOCI	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance at 31.12.2017	-	-	-	-
Reclassification from AFS to FVTOCI	3,560	42	-	3,602
Balance 01.01.2018	**3,560**	**42**	**-**	**3,602**
Additions	17,726	-	-	17,726
Disposals/ Maturities	(7,689)	-	-	(7,689)
Changes in Fair value	41	-	-	41
ECL impairment charge for the year	(13)	-	-	(13)
Closing Balance 31.12.2018	**13,624**	**42**	**-**	**13,667**

Movement in ECL allowance

ECL for investment securities at FVTOCI	Stage 1	Stage 2	Stage 3	Total
Balance at 31.12.2017	-	-	-	-
Remeasurement IFRS 9 (FTA)	-	-	-	-
Balance 01.01.2018	**-**	**-**	**-**	**-**
Domestic Corporate Entities Bonds	13	-	-	13
Foreign Government Bonds	-	-	-	-
ECL impairment charge for the year	**13**	**-**	**-**	**13**
ECL 31.12.2018	**13**	**-**	**-**	**13**

Analysis per Issuer for the year ended 31.12.2017	**2017**
	€' 000
Banks – Financial institutions	454
Corporate	3,148
Investment securities – Available for sale	**3,602**
Movement for the year:	
Balance as 1 January	**358**
Additions	8,289
Sales and redemptions	(5,200)
Profit / (Loss) from changes in fair value	155
Balance as 31 December	**3,602**

All the debt securities in the available for sale portfolio are traded in public markets.

Note 18: Financial assets at fair value through P&L

	2018	**2017**
	€' 000	€' 000
European Governments	14,254	21,719
Listed shares	299	-
Total Investment securities – FVTPL	**14,553**	**21,719**
Movement for the year:		
Balance as 1 January	**21,719**	**-**
Additions	1,769	21,757
Disposals (Sales and redemption)	(8,876)	-
Profit /(loss) from changes in fair value	(71)	(38)
Exchange differences	12	-
Balance as 31 December	**14,553**	**21,719**

The ECB eligible securities included in the Banks portfolios (FVTOCI and FVTPL) amounted to €24 million versus €22 million the end of previous year. Through the aforesaid ECB-eligible bonds, on 31.12.2018 the Bank was participating with €5 million (€10 million at 31.12.2017) in ECB's regular Medium Term Refinancing Operations. In addition, part of the above securities used as collateral for Repo transactions with other banks amounting at 31.12.2018 to €4.9 million. Both amounts included in Due to Banks balance.

Note 19: Derivative financial instruments

	31.12.2018 (€' 000)			**31.12.2017** (€' 000)		
	Nominal	Fair value		Nominal	Fair value	
	value	Assets	Liabilities	value	Assets	Liabilities
FX swaps / forwards	41,931	126	9	17,048	261	38
Warrant Linked to Greek GDP	2,835	8	-	2,835	14	-
Future FX	14,000	90	-	27,250	401	-
Future Bunds	13,626	-	111	21,761	213	-
Derivative financial instruments	**72,392**	**224**	**120**	**68,894**	**889**	**38**

The Bank does not use hedge accounting and therefore the gains and losses from derivative financial instruments are recognized in the Net results from derivatives and investment securities. The FX swaps and FX futures referred above are effective economic hedges.

Note 20: Intangible assets

	2018 €' 000	2017 €' 000
Acquisition cost:		
Opening balance as at 1 January	3,022	2,765
Additions	499	257
Closing balance as at 31 December	**3,521**	**3,022**
Accumulated amortization:		
Opening balance as at 1 January	2,108	1,891
Amortization charge for the year	297	217
Closing balance as at 31 December	**2,405**	**2,108**
Net book value:		
Opening net book value as at 1 January	**915**	**875**
Closing net book value as at 31 December	**1,117**	**915**

Intangible assets include only software.

Note 21: Property and equipment

Property and equipment as at 31.12.2018

(€' 000)	Land	Building	Leasehold improvements	Motor vehicles	Furniture and other equipment	IT equipm ent	**Total**
Cost:							
Opening balance as at 01.01.2018	1,051	4,853	341	15	934	1,140	8,334
Additions	-	57	-	-	20	80	157
Disposals and write offs	-	-	-	-	-		-
Closing balance as at 31.12.2018	**1,051**	**4,910**	**341**	**15**	**954**	**1,220**	**8,491**
Accumulated depreciation:							
Opening balance as at 01.01.2018	-	654	113	15	613	946	2,341
Depreciation	-	213	27	-	46	84	370
Disposals and write offs	-	-	-	-	-	1	1
Closing balance as at 31.12.2018	**-**	**867**	**140**	**15**	**659**	**1,031**	**2,712**
Net book value:							
Closing net book value as at 31.12.2018	**1,051**	**4,043**	**201**	**-**	**295**	**189**	**5,779**

Property and equipment as at 31.12.2017

(€' 000)	Land	Building	Leasehold improvements	Motor vehicles	Furniture and other equipment	IT equipm ent	**Total**
Cost:							
Opening balance as at 1.1.2017	1,051	4,853	341	15	877	1,115	8,252
Additions	-	-	-	-	57	25	82
Disposals and Write offs	-	-	-	-	-		-
Closing balance as at 31.12.2017	**1,051**	**4,853**	**341**	**15**	**934**	**1,140**	**8,334**
Accumulated depreciation:							
Opening balance as at 1.1.2017	-	440	86	15	567	870	1,978
Depreciation	-	214	27	-	46	76	363
Disposals and Write offs	-	-	-	-	-	-	-
Closing balance as at 31.12.2017	**-**	**654**	**113**	**15**	**613**	**946**	**2,341**
Net book value:							
Closing net book value as at 31.12.2017	**1,051**	**4,199**	**228**	**-**	**321**	**194**	**5,993**

No property and equipment has been pledged as collateral

Note 22: Deferred tax assets / liabilities

	2018 €' 000	2017 €' 000
Deferred tax assets		
Loans and advances to customers	239	117
Defined benefits obligations	442	403
Derivatives and financial instruments	11	(100)
Greek Government Bonds (PSI)	1,485	1,549
Other temporary differences	350	587
Total Deferred tax assets	**2,527**	**2,556**
Deferred tax liabilities		
Loans and advances to customers	2,498	2,788
Total Deferred tax Liabilities	**2,498**	**2,788**
Net Deferred tax (Liabilities)	**29**	**(233)**

Movement of temporary differences is analyzed as follows:

Movement for 2018 (€'000)	Balance as at 1.1.2018	Recognized through income statement 2018	Recognized through equity 2018	Balance as at 31.12.2018
Loans and advances to customers	(2,671)	413	-	**(2,258)**
Defined benefits obligations	403	33	7	**443**
Derivatives and investment Securities	(100)	135	(12)	**23**
Greek Government Bonds (PSI)	1,549	(65)	-	**1,484**
Other temporary differences	586	(714)	464	**336**
Total	**(233)**	**(197)**	**459**	**29**

Movement for 2017 (€'000)	Balance as at 1.1.2017	Recognized through income statement 2017	Recognized through equity 2017	Balance as at 31.12.2017
Loans and advances to customers	(2,920)	249	-	(2,671)
Defined benefits obligations	434	(35)	4	403
Derivatives and investment Securities	85	(140)	(45)	(100)
Greek Government Bonds (PSI)	1,613	(65)	-	1,549
Other temporary differences	213	374	-	586
Total	**(575)**	**384**	**(41)**	**(233)**

Note 23: Other assets

	2018 €' 000	2017 €' 000
Accrued income	1	1
Prepaid expenses	227	230
Hellenic Deposit and Investment Guarantee Fund	6,781	6,757
Tax Prepayments and other recoverable taxes	111	532
Other	708	744
Other assets	**7,828**	**8,264**

Hellenic Deposit and Investment Guarantee Fund included in other assets relate to the Bank's participation in assets the investment and deposit cover scheme.

The above figure consists of:
1. The amount contributed relating to investment cover scheme and
2. The difference between the regular annual contribution of credit institutions resulting from the application of article 6 of Law 3714/2008 “Borrowers protection and other regulations”, which raised the amount of deposits covered from Deposit Guarantee scheme from € 20 thousands to € 100 thousands per each depositor.
The above difference is included according to Law 4370/7.3.2016 Deposit Guarantee Scheme (incorporating Directive2014/49/EE), Deposit and Investment Guarantee Fund and other regulations in a special group of assets, whose elements owned in common by the participant credit institutions, according to the participation percentage of each one.

Note 24: Non-current assets held for sale

On 29 August 2018, the Bank acquired the vessel ALKIONI through public auction, a 1994-built catamaran car-passenger ferry, for an acquisition cost of approximately €1,5m (including €12 thousand capitalized expenses). The vessel is under a sale process that is expected to be completed within one year.

Upon classification as “Non-current assets held for sale”, measurement of her value at the lower of carrying amount and fair value less costs to sell, was carried out according to the requirements of IFRS 5.

Note 25: Due to banks

	2018 €’ 000	2017 €’ 000
Amounts due to Central Bank	5,000	10,000
Time deposits due to credit institutions	27,336	4,194
Due to banks	**32,336**	**14,194**

Note 26: Due to customers

	2018 €’ 000	2017 €’ 000
Sight deposits	56,965	63,561
Term deposits	87,272	66,747
Other	1,610	284
Due to customers	**145,847**	**130,592**

Due to customers include blocked deposits of:

	2018 €’ 000	2017 €’ 000
Blocked deposits for the issuance of Guarantee Letters	1,342	866
Blocked deposits for loans granted	31,480	19,990
Total	**32,822**	**20,856**

The only concentration relates to deposits of five (5) customers that represent approximately 30% of the amounts due to customers (€ 44 Million out of € 146 Million). In 2017 five (5) customers represented approximately 37% of the amounts due to customers (€ 48 Million out of € 130 Million).

Note 27: Other liabilities

	2018 €’ 000	2017 €’ 000
Taxes – duties (other than income tax)	305	294
Amounts due to social security funds	213	205
Accrued expenses and deferred income	515	404
Suppliers	504	261
Hellenic Deposit and Investment Guarantee Fund	79	53
Other payables	291	121
Other liabilities	**1,907**	**1,338**

Note 28: Retirement benefit obligations

Defined benefit plans
According to Greek labor law, employees are entitled to a one-off payment when they retire.

The amount differs according to the salary of the employees and the years of their employment up to the date of retirement. In the event that an employee voluntarily leaves, there is no similar liability. This one-off payment meets the definition of a defined benefit plan and at 31 December 2018 the present value of the liability amounted to €1,526 thousand (in 2017 € 1,386 thousand).

The retirement benefit obligations were calculated in compliance with the provisions of Greek Law 2112/20. Law 4093/12 decreased the minimum statutory indemnity. The Bank has decided to maintain the pre L.4093/12 benefit formula.

The provision is based on an independent actuarial study using the "Projected Unit Credit Method", according to which the cost of employee retirement indemnities is charged to the income statement.

The present value of the defined obligation is determined by the estimated future cash outflows using interest rates of high credit rating company securities, which have terms to maturity approximating the terms of the related liability.

	2018 €' 000	2017 €' 000
Amounts recognized in the Statement of Financial Position (SOFP)		
Present value of obligations	1,526	1,386
Net Liability in SOFP	**1,526**	**1,386**
Amounts recognized in the Income Statement		
Service cost	96	84
Net interest on the net defined benefit liability	19	21
Regular P&L Charge	**115**	**105**
Settlement/Curtailment/Termination loss/(gain)	-	377
Total P&L Charge	**115**	**482**
Reconciliation of benefit obligation		
DBO at start of period	1,386	1,495
Service cost	96	84
Interest cost	19	21
Benefits paid directly by the Company	-	(603)
Settlement/Curtailment/Termination loss/(gain)	-	377
Actuarial (gain)/loss - financial assumptions	(30)	(17)
Actuarial (gain)/loss - demographic assumptions	-	-
Actuarial (gain)/loss - experience	55	29
DBO at end of period	**1,526**	**1,386**
Remeasurements		
Liability gain/(loss) due to changes in assumptions	30	17
Liability experience gain/(loss) arising during the year	(55)	(29)
Total actuarial gain/(loss) recognized in OCI	**(25)**	**(12)**
Other adjustments recognized in OCI	-	-
Total amount recognized in OCI over the period	**(25)**	**(12)**
Movements in Net Liability in SOFP		
Net Liability in SOFP at the beginning of the period	**1,386**	**1,495**
Benefits paid directly	-	(603)
Total expense recognized in the income statement	115	482
Total amount recognized in the OCI	25	12
Net Liability in SOFP	**1,526**	**1,386**
Cash flows		
Expected benefits paid by the plan for next financial year	564	530

Assumptions:

Discount rate	1.85%	1.66%
Price inflation	1.75%	1.75%
Rate of compensation increase	2.75%	2.75%
Plan duration	10.97	11.17

The amounts recognized in the Statement of Financial Position are determined as follows:

	2018	2017	2016	2015	2014	2013
	€' 000	€' 000	€' 000	€' 000	€' 000	€' 000
Present value of obligations	**1,526**	1,386	1,495	1,270	1,253	922
Total obligation	**1,526**	**1,386**	**1,495**	**1,270**	**1,253**	**922**

Sensitivity analysis

• If the discount rate used were 0.5% higher (2.35% p.a. rather than 1.85% p.a.), then the DBO would be lower by about 4.90%.

• If the discount rate used were 0.5% lower (1.35% p.a. rather than 1.85% p.a.) then the DBO would be higher by about 5.40%.

Note 29: Share capital

Share capital for the year ended at: **(Amounts in €)**

	31.12.2018			**31.12.2017**		
	Number of Shares	Nominal Value	Share Capital	Number of Shares	Nominal Value	Share Capital
Opening balance	2,110,000	18	37,980,000	2,110,000	18	37,980,000
Issue of new shares	-	-	-	-	-	-
Closing balance	2,110,000	18	37,980,000	2,110,000	18	37,980,000

Note 30: Share premium

	2018	2017
	€' 000	€' 000
Share premium	50,513	50,513
Less: Share capital issue related expenses (net of tax)	(306)	(306)
Share premium	**50,207**	**50,207**

Note 31: Reserves

	2018	2017
	€' 000	€' 000
Statutory reserve	623	623
Valuation of AFS portfolio	-	(59)
Valuation of FVTOCI portfolio	(18)	-
Deferred tax on valuation of AFS portfolio	-	17
Deferred tax on valuation of FVTOCI portfolio	5	-
Actuarial Gain (Loss) of Retirement Benefit Obligations	(380)	(355)
Deferred tax on Remeasurement of the defined benefit obligations	111	103
Reserves	**341**	**329**

Movement of Reserves	**2018**	**2017**
	€' 000	€' 000
Opening Balance	**330**	**228**
Net gain/(losses) from changes in fair value of AFS investments	-	155
Net gain/(losses) from changes in fair value of OCI investments	41	-
Deferred tax on valuation of AFS portfolio	-	(45)
Deferred tax on valuation of FVTOCI portfolio	(12)	-
Net change in Fair value	**29**	**110**
Actuarial Gain (Loss) of Retirement Benefit Obligations	(25)	(12)
Deferred tax on Remeasurement of the defined benefit obligations	7	4
Net change from the remeasurement of the defined benefit obligations	**(18)**	**(8)**
Closing Balance	**341**	**329**

Note 32: Retained earnings

	2018	**2017**
	€' 000	€' 000
Opening balance	**1,599**	**3,957**
Dividends distributed	-	(1,400)
Remeasurement (IFRS-9 impact 1.1.2018, net of tax)	(1,136)	-
Profit / (Loss) for the year	390	(958)
Closing balance	**852**	**1,599**

Note 33: Contingent liabilities and commitments

Legal issues

There are no pending legal actions for or against the Bank.

Tax issues

The Bank has been audited by the tax authorities for the financial years up to and including 2009 while the financial year 2010 remains unaudited by the tax authorities. For the financial year 2010, it is expected that no additional taxes and penalties can be imposed based on the legislative framework with respect to the expiration of the time limitation period of the Greek State's right to impose additional taxes and penalties as of 31.12.2018.

The financial years 2011, 2012 and 2013 have been audited by its certified auditors, Deloitte Certified Public Accountants S.A. (the statutory auditor), in accordance with article 82 of Law 2238/1994. The relevant tax audit certificates were issued at 11.07.2012 at 26.09.2013 and at 10.07.2014 respectively.

For the financial year 2011, the Greek State's right for income tax corrective assessments has been time-barred as of 31.12.2018. As mentioned above, the Bank has received tax audit certificates with no qualifications for the financial years 2012 and 2013. These years are considered as closed due to the elapsing of the 18-month limitation period from the date of the tax audit certificate posting.

Following the 1680/2018 minute of the Hellenic State Legal Council, which has been accepted by the Governor of the Independent Public Revenue Authority, it is reasoned that financial years 2012 and 2013 with regards to tax audits cannot be deemed as closed until the issue is finally resolved by the Hellenic Council of State.

The financial years 2014, 2015, 2016 and 2017 have been audited by the Bank's statutory auditor in accordance with article 65A of law 4174/2013. The relevant tax audit certificates were issued with no qualifications at 29.09.2015 at 28.09.2016, 23.10.2017 and at 29.10.2018 respectively. For the financial year 2018 the audit from the statutory auditor is in progress and the relevant tax compliance report is expected to be granted after the publication of the financial statements of the year ended. If any additional tax liabilities arise after the completion of the tax audit, we estimate that they will not have significant effect on the financial statements.

Based on Ministerial Decision 1006/05.01.2016 for the financial years 2014 onwards, there is no exception from tax audit by the tax authorities to those entities that have been tax audited by the statutory auditor and its tax audit certificate was unqualified. Therefore, the tax authorities may re-audit the tax books.

Consequently, additional taxes and penalties may be imposed as a result of such tax audits. Although the amounts cannot be reliably determined, it is not expected to have a material effect on the statement of financial position of the Bank.

Capital commitments

	2018	2017
	€' 000	€' 000
Undrawn commitments	12,428	1,563
Financial guarantees	1,451	892
Total	**13,879**	**2,456**

Operating lease commitments

Operating leases
The Bank has liabilities from the lease of its branches in Piraeus and Glyfada and company cars that it uses.
The duration of the lease contract is 12 years for the buildings and 3 to 6 years for the company cars.
The rents are usually subject to annual adjustments due to inflation. It is the Bank's policy to renew these contracts.
The rent expenses concerning the buildings amounted to € 80 thousand for 2018 (€ 86 thousand for 2017).

Leases as lessee non-cancelable operating leases are payable as follows:	2018	2017
	€' 000	€' 000
No later than 1 year	176	150
Later than 1 year and no later than 5 years	365	492
Later than 5 years	89	255
Total	**630**	**897**

Syndicated Loans
The Bank acts as an agent and administrator for syndicated loans granted to shipping corporations. The total amount of the syndicated loans administrated or participated by the Bank is analyzed as follows:

	2018	2017
	€' 000	€' 000
Participation of other banks in drawdowned syndicated loans	723,046	718,137
AB Bank's participation in drawdown syndicated loans	11,874	26,551
Total amount of drawdowned syndicated loans	**734,920**	**744,688**
Other banks participation in unused credit facilities of syndicated loans	16,000	4,690
AB Bank's participation in unused credit facilities of syndicated loans	-	1,563
Total amount of unused credit facilities of syndicated loans	**16,000**	**6,253**
Total amount of syndicated loans administrated with the participation of AB-Bank	**750,920**	**750,941**

Note 34: Events after the reporting period

At 5th of June 2019 a sale and purchase agreement was signed for the 90% of Bank's shares by existing shareholders and Aegean Financial Holdings S.a.r.I, a subsidiary of the Chenavari investment managers, already holding a stake of 4% since the end of 2017. The agreement is subject to the approval of the regulatory authority and is expected to be completed within the upcoming months. After the completion of the shares purchase, the Aegean Financial Holdings S.a.r.I will become the major shareholder of the Bank holding 94% of the total shares.

At 7th of June 2019 the Bank signed a memorandum of agreement for the sale of the vessel ALKIONI, a non-current asset held for sale at the Bank's ownership, in the amount of € 1,6 million. The sale completed at 28th of June 2019.

Note 35: IFRS 9 Transition disclosures

From 1st of January 2018, the Bank has adopted and implemented IFRS 9 'Financial Instruments'. The Bank has elected to apply IFRS 9 retrospectively without restating the comparative figures in line with the transitional provisions of IFRS 9. The comparative information as presented in the Bank's financial year for the period ending 31st December 2017 is not comparable with the financial information presented in the Bank's financial statements for the year ending 31st December 2018. Information regarding the financial assets for the financial period ending 31st December 2017 is presented under the IAS 39 accounting framework. Regarding the adoption of the new standard from 1st January 2018 the Bank has prepared transition disclosures as shown in the tables below in order to provide the necessary information to understand the impact of the new accounting standard on ABBank's financial position as at 1st January 2018.

The Transitional Disclosures provide context for changes in the recognition of credit losses, changes in the classification and measurement of financial instruments on the Bank's Statement of Financial Position and the resulting impact on regulatory capital.

35.1 IFRS 9 Implementation Program

The new accounting standard IFRS 9 will replace IAS 39 for annual periods on or after 1st January 2018, which impose fundamental changes in the way financial instruments are classified and measured. For the adoption and the implementation of the new standard, the Bank has created enhanced policies and procedures in order to comply with its requirements. Financial Management, Risk Management and IT department were involved for the implementation of policies, methodologies and procedures in order the Bank to comply with the new standard.

The Bank has completed the asset classification procedures, the impairment process and the creation of credit risk calculation models, as well as the procedures for adapting information systems to meet the requirements of the new framework for calculating the expected loss.

The Bank implements methodological approaches and has implemented almost all of the Solely Payments of Principals and Interest tests, as well as the determination of the classification and measurement criteria. It has also initiated the update and development of the required documentation on the level of policies, procedures and methodologies that will follow in view of the application of IFRS 9.

35.2 Amendments to accounting policies due to IFRS 9 implementation

Classification and measurement

Under the new framework of IFRS 9, the classification of assets defines how existing information is reflected in the financial statements. In particular, the valuation method and the impairment calculation are defined by this classification, which should be based on criteria established by the Bank.

Classification of financial assets

The Bank recognizes a financial asset or liability in its financial statements at the time of the creation of the contractual claim or liability at transaction date. At initial recognition the Bank classifies the financial asset based on its Business Model and the contractual cash flow characteristics of the financial asset.

The financial assets based on the Bank's business Model that they belong are classified into four measurement categories:

- Financial assets measured at amortized cost (AC): This category classifies each asset or group of assets for which the Bank's business model constitutes its holding for the purpose of collecting contractual cash flows of capital and Interest over the remaining capital. The possible sale of financial assets should not be the result of business planning for their management.
- Financial assets measured at Fair Value through Other Comprehensive Income (FVTOCI), that are reclassified at Fair Value through Income Statement on de-recognition: Profits or losses arising from the measurement are recorded in a separate equity account. This category classifies each asset or group of assets for which the Bank's business model recommends that it be held for the purpose of collecting contractual cash flows and selling them when the strategic planning of their acquisition has been achieved.

  In order to classify assets in the above categories, contractual cash flows should consist solely of payments of principal and interest (SPPIs). At initial recognition the Bank performs the SPPI test at initial recognition of financial assets. The SPPI test is performed in groups of financial assets that have similar contractual characteristics in determining the contractual cash flows and whether those consist solely of payments of principal and interest otherwise the SPPI test is carried out on individual financial assets.

- Financial assets mandatorily measured at Fair Value through Profit or Loss (FVTPL): Profits or losses arising from the measurement of the financial assets are recorded in the income statement. This category classifies items that do not meet the SPPI criteria.
- Financial assets measured at Fair Value through Profit or Loss (FVTPL): Profits or losses arising from the measurement of the financial assets are recorded in the income statement. This category classifies items the Bank holds for trading.

Measurement of financial assets at initial recognition

The Bank measures its financial assets at fair value on initial recognition. Assets measured at fair value through profit or loss are valued at their transaction price. For the financial assets measured at amortized cost, transaction costs or creation costs are included in their value at initial recognition.

In the event that the Bank considers that the fair value on initial recognition differs from the transaction price, the difference is recognized as a gain or loss on initial recognition but only if the fair value is based on a requested active market price for identical assets or is based on a valuation technique using data solely from identified markets. In all other cases the fair value is adjusted to the amount of the transaction price.

Assessment of the SPPI condition (assessment of the contractual cash flows of the financial asset)

In 2017, the Bank conducted an assessment of business model applied to portfolios and carried out a detailed assessment of the contractual terms in the debt securities portfolio on a sample basis, carrying on to cover the entire portfolio, in order to identify possible changes in their classification and measurement. For the most part, the Bank's debt portfolio complies with the "SPPI" condition. Consequently, based on the existing business models as at 31 December 2017, the Bank expects:

- Due from banks and loans and advances to customers that are measured at amortized cost in accordance with IAS 39 will continue to be measured at amortized cost in accordance with IFRS 9;
- Bonds that are classified as available-for-sale in accordance with IAS 39 will be classified according to their business model at their fair value through other comprehensive income directly in equity;
- Bond that under IAS 39 are measured at fair value through profit or loss, will continue to be measured at fair value through profit or loss in accordance with IFRS 9; and
- Derivative financial assets that, according to IAS 39, are measured at fair value through profit or loss, will be classified as measured at fair value through profit or loss in accordance with IFRS 9.

Individual Assessment

The bank assesses the impairment losses on individual facility level. Due to the small size and diversity of the Bank's loan portfolio, the individual calculation approach is deemed to be the most accurate and efficient for the Bank's needs. As such, the stage allocation and the expected credit loss calculation is conducted per borrower exposure. Notable exceptions are cases whereby certain exposures to a specific group are legally or commercially bound.

Classification of loans into stages based on the increase in credit risk (Staging)

The Bank has introduced a number of criteria for the classification of financial assets in stages. These criteria are intended to check whether there has been a significant deterioration in the credit quality of financial assets since their creation.

Essentially, the Bank examines:

- days past due,
- if there has been a significant downgrade of the credit rating of the assets,
- qualitative parameters indicating a change in credit quality (eg, dealing with financial difficulties).
- Unlikely to pay criteria.

If a significant increase in the counterparty's credit risk is identified from the date of the initial recognition of the financial asset, then it will be classified in stage 2.

The Bank in Stage 3 classifies the non-performing exposures and those items that are past due more than 90 days.
Movement of assets in earlier stages will take place once the criteria that have led to their inclusion in Stages 2 and 3 have ceased to apply.

Calculation of Expected Credit Loss ('ECL')
The measurement of expected credit losses differs from their previous calculation under IAS 39, given that the assets classified in Stages 2 and 3 take into account their overall life span. Moreover, the expected credit losses will be weighted on the basis of two macroeconomic scenarios (adverse and basic). Consequently, measurement requires the use of complex models and assumptions about macroeconomic conditions.

Expected Credit Losses are defined as an estimate of credit losses that the Bank would expect to experience over the period defined by the stage allocation of the exposure. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of a lending exposure and the cash flows that the Bank expects to receive discounted at the original effective interest rate (EIR) of the same instrument.

ECL measurement per stage
In compliance with the impairment requirement under IFRS 9, the Bank assesses the expected credit losses for each of the lending exposures. The time horizon over which the ECL is assessed depends on the stage where each lending exposure has been allocated to. The unit responsible for the calculation of the ECL for each credit exposure is the Credit Risk Management Division ("CRMD").

Stage 1
Exposures that display neither significant increases in credit risk nor indications of impairment, and thus are classified in Stage 1, have their expected credit losses measured within a 12month time period. As part of the assessment process, CRMD initially determines whether there are reasonable expectations that they will incur losses within the 12month timeframe. CRMD is able to make that determination by accounting for the expected cash flows of the borrower and the borrower's debt obligation over a period of twelve (12) months. If the borrowers' expected cash flows are not sufficient to cover the debt obligations during the reporting period, CRMD calculates 12month ECL based on loss rates derived from historical data. On the contrary, should a borrower's debt obligations at the end of the reporting period be greater than his expected cash flows, then CRMD calculates expected credit losses by comparing the exposure amount outstanding to the expected cash flows during the 12month period, considering also the cash flows from the liquidation of the collateral.

Stage 2
Exposures that display significantly increased credit risk (SICR), yet do not have any indications of impairment, are classified at Stage 2. As such, CRMD calculates their lifetime expected credit losses through the "Going Concern" methodology, since these borrowers have continuing business activity for a period up to the loan maturity. If the borrowers' expected cash flows are sufficient to cover the debt obligations during the reporting period, CRMD calculates lifetime ECL based on loss rates derived from historical data.

Stage 3
Exposures that display objective evidence of impairment have their impairment losses measured through the calculation of Lifetime ECL. The particular methodology that is appropriate for each borrower is mainly dependent on whether the borrower's business remains operational or not, at the time of the calculation and in the near future. If the borrowers' expected cash flows are sufficient to cover the debt obligations at the end of the reporting period, CRMD calculates lifetime ECL based on loss rates derived from historical data

Hedge Accounting
The Bank does not apply hedge accounting.

35.3 Estimated Impact on regulatory capital

The IFRS 9 transition impact before tax as at 1 January 2018 on the Financial Statements of the AB-Bank estimated to €1,600 thousand additional impairment allowance for loan losses.
AB-Bank **has not** adopted the regulatory transitional arrangements published by the EU (No 2017/2395) in December 2017, amending the regulation (EU) 575/2013 with the insertion of article 473a.

These transitional arrangements permit banks to add back to their capital base a proportion of the IFRS 9 impact due to expected credit loss provisions during the first five years of use. The proportion that banks may add back starts at 95% in 2018, and reduces to 25% by 2022.

	31.12.2017 IAS 39 €' 000	1.1.2018 IFRS 9 Fully loaded €' 000
Common Equity Tier 1 Capital	88,113	86,977
Tier I capital	88,113	86,977
Total Core Tier I capital	88,113	86,977
Total Risk Weighted Assets	211,720	210,023
Common Equity Tier 1 Ratio (CET1)	41.62%	41.41%
Tier 1 Ratio (T1)	41.62%	41.41%
Total Capital ratio	41.62%	41.41%

35.4 Classification of Financial Assets at the date of initial application of IFRS 9

	IAS 39 carrying amount 31.12.2017	Remeasurements	Reclassifications	IFRS 9 carrying amount 01.01.2018
ASSETS				
Cash and balances with Central Bank	8,404	-	-	8,404
Due from banks	50,439	-	-	50,439
Loans and advances to customers	137,671	(1,597)	-	136,074
ECL for off-balance sheet exposures	-	(3)	-	(3)
Investment securities – Available for sale	3,602	-	-	-
Investment securities – at FVTOCI	-	-	-	3,602
Financial assets at fair value through P&L	21,719	-	-	21,719
Derivative financial instruments	889	-	-	889
Intangible assets	915	-	-	915
Property and equipment	5,993	-	-	5,993
Deferred tax Assets	-	-	231	231
Other assets	8,264	-	-	8,264
Total assets	**237,896**	**(1,600)**	**231**	**236,527**
LIABILITIES				
Due to banks	14,194	-	-	14,194
Due to customers	130,592	-	-	130,592
Derivative financial instruments	38	-	-	38
Retirement benefit obligations	1,386	-	-	1,386
Deferred tax Liabilities	233	(464)	231	-
Other liabilities	1,338	-	-	1,338
Total liabilities	**147,781**	**(464)**	**231**	**147,548**
SHAREHOLDERS' EQUITY				
Share capital	37,980	-	-	37,980
Share premium	50,207	-	-	50,207
Reserves	329	-	-	329
Retained earnings	1,599	(1,136)	-	463
Total shareholders' equity	**90,115**	**(1,136)**	**-**	**88,979**
Total liabilities and equity	**237,896**	**(1,600)**	**231**	**236,527**

35.5 Reconciliation of IFRS 9 FTA impact

	IAS 39 carrying amount 31.12.2017	Remeasurements	Reclassifications	IFRS 9 carrying amount 01.01.2018
Loans and advances to customers	(8,232)	(1,597)	-	(9,829)
Investment securities – Available for sale	3,602	-	(3,602)	-
Investment securities – at Other Comprehensive Income	-	-	3,602	3,602
ECL for off-balance sheet exposures	-	(3)	-	(3)
Total IFRS 9 FTA impact	**-**	**(1,600)**	**-**	**(1,600)**

35.6 Remeasurements in allowance for impairment for loans and advances to customers per portfolio and stage

	Stage 1		Stage 2		Stage 3		Total loans and advances to customers at amortized cost		
	Gross	ECLs	Gross	ECLs	Gross	ECLs	Gross	ECLs	Net Value
On-Balance Sheet	89,036	974	24,064	429	32,803	8,426	145,903	9,829	136,074
Off-Balance Sheet	3,582	3	-	-	-	-	3,582	3	3,579
TOTAL	**92,618**	**977**	**24,064**	**429**	**32,803**	**8,426**	**149,497**	**9,832**	**136,663**

Loans and advances to customers FTA of IFRS 9

	Stage 1	Stage 2	Stage 3	Total
Loans and advances to customers 31.12.2017 (IAS 39)	89,036	24,064	32,803	145,902
Reclassification	-	-	-	-
Remeasurement	-	-	-	-
Loans and advances to customers 01.01.2018 (IFRS 9)	**89,036**	**24,064**	**32,803**	**145,902**

	Stage 1	Stage 2	Stage 3	Total
Impairment for Loans and advances to customers as of 31.12.2017 (IAS 39)	-	-	(8,232)	(8,232)
Reclassification	-	-	-	-
Remeasurement	(974)	(429)	(94)	(1,597)
ECL for Loan and advances to customers 01.01.2018 (IFRS 9)	**(974)**	**(429)**	**(8,426)**	**(9,829)**

Note 36: Related party transactions

Related parties include:
(a) an entity that has control over the Bank 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) members of key management personnel, their close family members and entities controlled or jointly controlled by the abovementioned persons;
(c) associates and joint ventures of the Bank; and
(d) fellow 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.

Main shareholders of the Bank are Costanus Limited, Mr. Theodore Afthonidis personally and Vealmont Limited which is controlled by Mr. Afthonidis.

Outstanding balances and results of related transactions are as follows:

	2018 €' 000	2017 €' 000
Assets		
Loans and advances to customers	4,809	3,935
Total assets	**4,809**	**3,935**
Liabilities		
Due to customers	17,634	18,580
Total liabilities	**17,634**	**18,580**
Income		
Interest and similar income	202	240
Fees and commission income	83	279
Total income	**285**	**519**
Expenses		
Impairment losses on loans and advances	221	39
Write offs on loans and advances	1,459	-
Total expenses	**1,680**	**39**

Remuneration, short term employee and post-employment benefits of the Board of Directors (BoD) members and General Managers, charged to the Income statement, summarized as follows:

	2018 €' 000	2017 €' 000
Remuneration	1,714	1,548
Short Term employee and post-employment benefits	272	193
Total	**1,986**	**1,741**

There are no other transactions related to the Board of Directors or the General Managers of the Bank.

Note 37: Independent auditor's fees

Deloitte Certified Public Accountants S.A. is our independent public accountant for the year ended 31 December 2018. The following table presents the fees for professional audit and other services rendered:

	2018 €' 000	2017 €' 000
Audit fees	72	65
Audit-related fees	20	20
Total	**92**	**85**