

ERB Hellas Funding Limited

Annual Report

**For the year ended 31 December 2015**

Company's registration number: 89637

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### **Declaration of the Directors responsible for financial reporting**

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



Stephen Langan  
Director

27 April 2016

## Directors' Report

The directors submit their report and the audited financial statements of ERB Hellas Funding Limited ("the Company") for the year ended 31 December 2015.

### a. Business review and principal activities

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

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

The profit for the year amounted to € 38 thousand (ths) (2014: profit € 90 ths). No dividend was paid to shareholders during 2015 (2014: nil).

### b. Business environment, strategy and future outlook

The Company's business strategy and activities are linked to those of its Parent Company. In 2015, the macroeconomic environment in Greece has been very challenging for the Greek banking system. The prolonged uncertainty relating to an agreement with the European partners on the continuation of the financing of the Greek State and the tightened liquidity conditions, which have severely impacted the Greek economy, have adversely affected the Parent Company's group operations. In this particularly demanding context, the Parent Company's group operations were aimed to adjust to the prevailing conditions.

Since May 2010, Greece has undertaken significant structural reforms to restore competitiveness and promote economic growth through the implementation of two consecutive Economic Adjustment Programmes agreed with the European Commission ("EC"), the European Central Bank ("ECB") and the International Monetary Fund ("IMF") ("the Institutions"). This had led to primary fiscal surplus in 2013 and a primary balance of 0.0% of GDP in 2014, but also to reform fatigue and social unrest. Following the failure of the constitutional process to elect a new President of the Hellenic Republic at the end of 2014, early parliamentary elections were held on January 25 2015 and a new coalition government came into office. The new government moved to negotiate a new financing framework and a revised reform programme with the Institutions for the final review of the Second Economic Adjustment Programme ("SEAP"). In the context of these negotiations, the extension of the Master Financial Assistance Facility Agreement ("MFFA") of the SEAP that the Greek Government managed to achieve under the 20 February 2015 Agreement expired on June 30 2015 without a successful conclusion of the review or a new extension. The prolonged negotiations of the Greek government with the Institutions until the expiration of the extension of the MFFA on 30 June 2015, led to increased uncertainty and significant deposit outflows. With banks' liquidity buffers falling to significantly low levels, the Greek government on 28 June 2015 introduced restrictions on banking transactions ("capital controls") and a temporary bank holiday, in order to contain further liquidity outflows. Following the termination of the bank holiday in Greece on 20 July 2015 there has been some gradual relaxation of capital controls.

After the imposition of capital controls and a referendum that led to the rejection of the Eurozone proposal that was tabled in the negotiations before the expiration of the MFFA, the government restarted the negotiations. The new 3-year ESM programme – the Third Economic Adjustment Programme ("TEAP") – that was finalized in mid-August 2015 included a financing envelope of ca € 86 bn which will permit Greece to service its debt, recapitalize its banks, clear accumulated arrears and finance its budget. The final agreement on the TEAP, together with an additional series of prerequisite structural reforms, passed in the

## Directors' Report (continued)

Greek Parliament and got the approval of the Eurogroup on 14 August 2015. The government managed to complete two sets of prior actions/reforms from the TEAP at the end of November and December 2015. This permitted the disbursement of two additional instalments of € 3.0 bn in total, in addition to the € 13 bn disbursed in August 2015 as a first instalment from the ESM loan. By mid-December 2015, the banks' recapitalization was completed with only ca € 5.4 bn from the initial buffer of up to € 25 bn used. The unused funds were subtracted from the ESM loan, reducing it to ca € 64.5 bn as of the end of January 2016. The most crucial reform items include; the pension reform, the reform of the income tax code, the fiscal measures for the Medium Term Fiscal plan for 2016-18, the secondary market for first residence and SMEs NPL loans, the modernization of Greece's public administration and the creation of a new privatization fund. However, the 1st Review of the TEAP is still pending and is expected to be completed in the next weeks.

On the fiscal front, according to the 2016 Budget, the forecast for 2015 was for a primary deficit of -0.2% of GDP mainly due to the increased uncertainty in the economy, the downward 2015 growth revision, and the political risk over the first seven months of that year. On April 21 2016 Eurostat announced that the 2015 primary balance in European System of National and Regional Accounts (ESA2010) terms is at 0.7% of GDP, a primary surplus. Even though the definition of Eurostat for the primary balance differs from the respective definition in terms of the TEAP we expect that in TEAP terms the 2015 primary balance will be positive. The respective forecast for 2016 is for a primary surplus of 0.5% of GDP. Under the TEAP, the primary balance for 2017 and 2018 is expected at 1.75% and 3.5% of GDP respectively. The achievement of sustainable primary surpluses for the period ahead constitutes a necessary condition for a successful agreement on the additional debt relief measures from official lenders, in line with the explicit commitments provided at the 26/27 November 2012 Eurogroup that was reinstated in the 13 July 2015 Preliminary Agreement. The current account, according to recent IMF data, recorded a surplus of 0.6% and 0.9% of GDP in 2013 and 2014 – for the first time since official records are available (1948) – against a deficit of 2.5%, 9.9%, 10.1% and 10.9% of GDP for 2012, 2011, 2010 and 2009 respectively. For 2015, 2016, 2017 and 2018 the current account surplus is expected at 0.7%, 1.5%, 1.2% and 0.4% of GDP respectively.

Based on the Hellenic Statistical Authority ("ELSTAT") data, the unemployment rate in December 2015 was 24% (December 2014: 25.9%) and had decreased approximately 2.0 percentage points (ppts) in 2015 pointing towards a slow path of recovery conditional on no unforeseen developments in the upcoming period.

The ongoing deleveraging in the Greek economy can be considered as a major drag for the recovery path. From June 2011 until December 2014, the average annual private sector domestic negative credit growth was -8.02%. According to the latest available data from Bank of Greece (BoG), i.e. in February 2016, the private sector domestic credit stock was at € 202.8 bn, lower by -4.8% compared to February 2015. Finally, on the other side of the ledger, private sector domestic deposits were at € 121.7 bn in February 2016 from € 140.5 bn in February 2015, a decrease of -13.4%. The recovery of deposits is closely related with the successful conclusion of the 1st review of the TEAP and the return of the country to a sustainable growth path.

Considerable risks continue to surround the near-term domestic economic outlook. The unemployment rate remains very high and follows a slowly decreasing path. At the same time the country was in a deflationary territory for 34 out of the last 36 consecutive months. In December 2015 the general price level (HICP) recorded an increase of ca 0.4%. The respective figure for February 2016 was again positive at 0.07% from -1.91% in February 2015. In 2014, real GDP growth turned positive, at 0.8%, for the first time after 6 years in recession. The increased uncertainty over the conclusion of the last review of the SEAP, the

**Directors' Report (continued)**

expiration of the programme at the end of June 2015 without tangible positive results, the imposition of capital controls, and the need for a new bank recapitalization process led to a deterioration of the 2015 real GDP forecasts. The current Winter EC projection (4 February 2016) on real GDP growth for 2015, 2016, 2017 is approximately at 0.0%, -0.7%, 2.7% respectively conditional on the prompt TEAP implementation, the successful conclusion of the 1st review of the programme. According to most recent ELSTAT data, real GDP is expected to decrease by approximately -0.2% in 2015. In this context and as a consequence of the impact of capital controls, which is expected to be milder than initially anticipated, Eurobank's Macroeconomic Research department's analysis provides for a real GDP growth for 2016 and 2017 at -1.0% and 2.7% of GDP.

Regarding the outlook for the next 12 months, the main risks and uncertainties stem from the current macroeconomic environment in Greece. In particular a) delays in the implementation of the agreed reforms in order to achieve the timely completion of the first program review that represents a key prerequisite for the release of additional official funding under the 3-year ESM loan facility and the initiation of official discussions on additional debt relief measures to Greece b) the new fiscal austerity package agreed under the new bailout program and the effect in the real economy and c) the restrictions in the free movement of capital with their negative impact on the economic activity, would have potentially adverse effect on the liquidity and solvency of the Greek banking sector. Continuation of the recession could affect the prospects of the Greek banking system leading to the deterioration of asset quality, increased dependence by the Eurosystem funding, particularly the expensive ELA mechanism and further pressures on revenue side from increased funding cost and lower fees and commission income. In addition, the refugee – migrant crisis that escalated after mid-2015 might pose a significant risk for the Greek economy in the following period if a sustainable EU driven solution will not be effective in the following months.

On the other hand, the demonstrated resilience of the Greek economy in 2015, the successful recapitalization of the domestic banking system, the gradual relaxation of capital controls and the mobilization of EU funding to support domestic investment and job creation could facilitate a stabilization of the domestic environment and a resumption of positive economic growth as early as in the second half of 2016. The restoration of confidence, the attraction of new investments and the revival of economic growth remain key challenges. The decisive implementation of the measures agreed in the context of the new ESM program will permit the ECB to reinstate the waiver for the instruments issued by the Hellenic Republic and will signal the gradual return of deposits lost in 2015 in the banking system and the re-access to the markets for liquidity.

In this context, and in accordance with the preliminary agreement of the 12 July 2015 Euro summit, the ECB/Single Supervisory Mechanism ("SSM") conducted a comprehensive assessment of the Greek banks ("CA") in order to determine their potential capital needs. The results of the CA have been derived taking into account the combined effect of i) an Asset Quality Review ("AQR") and ii) a forward looking Stress Test, so as to assess the resilience of the Greek banks' balance sheets to stress test scenarios (a baseline and an adverse) for the period 2015-2017. The results of the CA were announced on 31 October 2015, based on which a shortfall of € 339 m in baseline scenario against 9.5% CET1 threshold and € 2,122 m in adverse scenario against 8% CET1 threshold, was identified for the Parent Company. Following the recognition by SSM of € 83 m capital generation that were taken into account to reduce the capital shortfall, on 16 November 2015 the EGM of the Bank approved a share capital increase up to € 2,039 m. The capital increase has been effected by means of a private placement to institutional and other eligible investors in Greece and internationally through a book-building process (Institutional Offering), with waiving of the pre-emption rights of the Bank's existing ordinary shareholders and preference shareholder.

## Directors' Report (continued)

In combination with the aforementioned share capital increase, a Liability Management Exercise ("LME") was launched by the Parent Company on 29 October 2015 referring to the tender offer on € 877 million (face value) of outstanding eligible senior unsecured, Tier I and Tier II securities. The proceeds would be used to subscribe for new shares ("New Shares") in the said Bank's share capital increase. The Bank retained the right of accepting partially the LME orders, in which case eligible securities would be accepted on a pro rata basis in accordance with relative subordination ranking. On 18 November 2015, the Parent Company announced that it has completed the aforementioned book-building process. In particular, indicative demand from investors in the Institutional Offering together with the preliminary results of Parent Company's LME were in excess of € 2,039 million and therefore were sufficient for the Parent Company to raise such amount without seeking any capital support from the Hellenic Financial Stability Fund ("HFSF"). Accordingly, on 23 November 2015 the Parent Company announced the allocation of New Shares between the Institutional Offering and the LME, according to which the aggregate purchase proceeds of the securities accepted as part of the LME amounted to € 418 million, € 17 million of which relate to Tier I securities issued by the Company (note 18).

The directors monitor the progress of the Company by reference to financial and non-financial data available to them on a regular basis. Particular attention is paid to net interest income and the balances of debt instruments and preferred securities outstanding at the reporting date.

The assessment by the directors of the Company's ongoing business model is closely associated with the business decisions and operations of the Parent Company. On the basis of the analysis of the Parent Company's and the Company's capital solvency and liquidity, the uncertainties relating to the macroeconomic environment in Greece and having considered the mitigating factors set out in note 2 of the Financial Statements, including the successful outcome of the recapitalisation actions to cover the capital shortfall that arose from the assessment of the Parent Company's capital needs by the ECB, the directors have been satisfied that the Company has the ability to continue as a going concern into the foreseeable future and that it is appropriate to prepare the financial statements of the Company on a going concern basis.

### c. Principal risks and uncertainties

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

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

The principal risks and uncertainties of the Parent Company for 2015, which include those of the Company, are discussed in the Report of Directors and the notes to the consolidated financial statements included in the 2015 Annual Financial Report of Eurobank Ergasias S.A., which was signed on 17 March 2016 (available at website: [www.eurobank.gr](http://www.eurobank.gr)).

### d. Creditor payment policy

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

## Directors' Report (continued)

### e. Directors

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

Peter Gatehouse

Stephen Langan

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

### f. Parent Company

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

### g. Statement of Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable laws and regulations.

The directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for ensuring that the Annual Report includes information required by the Listing Rules of the Financial Conduct Authority and disclosure Transparency Rules.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

### h. Statement of disclosure of information to auditors

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

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and



**Directors' Report (continued)**

- they have taken all steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**i. Independent Auditors**

A resolution to reappoint PricewaterhouseCoopers CI LLP as auditors to the Company will be proposed at the forthcoming shareholders' Annual General Meeting.

**j. Secretary**

The secretary of the Company who held office for the year ended 31 December 2015 and up to the date of signature of the report and financial statements was Elian Fiduciary Services (Jersey) Limited.

The Directors' Report was approved by the Board of Directors on 27 April 2016 and was signed on its behalf by:

Stephen Langan

Director

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a vertical line and a horizontal dash.

27 April 2016

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED****Report on the financial statements**

We have audited the accompanying financial statements of ERB Hellas Funding Limited ("the Company") which comprise the balance sheet as of 31 December 2015 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and with the requirements of Jersey law. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with IFRS and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

**Emphasis of matter**

Without qualifying our opinion, we draw attention to the disclosures made in Note 2.1 of the financial statements, which refer to the material uncertainties associated with the current economic conditions in Greece, and the ongoing developments that affect the banking sector. These material uncertainties could adversely impact the Company's going concern assumption.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED**

**Report on other legal and regulatory requirements**

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises the Directors' report and the Declaration of the Directors responsible for financial reporting.

In our opinion the information given in the Directors' report is consistent with the financial statements.

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



James de Veulle  
For and on behalf of PricewaterhouseCoopers CI LLP  
Chartered Accountants and Recognised Auditor  
Jersey, Channel Islands  
28 April 2016

## Statement of Comprehensive Income

	Note	Year ended 31 December	
		2015 €'000	2014 €'000
Interest and similar income	5	15,971	33,010
Interest expense and similar charges	6	(15,939)	(32,946)
Net interest income		32	64
Net gains/(losses) from financial instruments designated at fair value	7	-	-
Reversal of impairment on held-to-maturity investment securities	12	779	-
Adjustment to carrying value of preferred securities	14	(778)	-
Net gains on redemption of investment and preferred securities	14	36	77
Operating expenses	8	(31)	(51)
<b>Profit before income tax</b>		<b>38</b>	<b>90</b>
Income tax expense	9	-	-
<b>Net profit for the year</b>		<b>38</b>	<b>90</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>38</b>	<b>90</b>

The notes on pages 16 to 38 form an integral part of these financial statements.

**Balance Sheet**

	Note	At 31 December	
		2015 €'000	2014 €'000
<b>Assets</b>			
Deposits with banks	10	33	78
Financial assets designated at fair value through profit or loss	11	8,742	9,845
Held-to-maturity investment securities	12	54,090	348,025
<b>Total assets</b>		<b>62,865</b>	<b>357,948</b>
<b>Liabilities</b>			
Preferred securities designated at fair value through profit or loss	13	8,742	9,845
Preferred securities at amortised cost	14	54,093	348,093
Other liabilities		31	49
<b>Total liabilities</b>		<b>62,866</b>	<b>357,987</b>
<b>Equity</b>			
Share capital	15	110	110
Accumulated losses		(111)	(149)
<b>Total equity</b>		<b>(1)</b>	<b>(39)</b>
<b>Total equity and liabilities</b>		<b>62,865</b>	<b>357,948</b>

The financial statements on pages 12 to 38 were approved and authorized for issue by the board of Directors on 27 April 2016 and signed on their behalf by:-

Cheryl Heslop  
Alternate Director

The notes on pages 16 to 38 form an integral part of these financial statements.

**Statement of Changes in Equity**

	<b>Share capital €'000</b>	<b>Accumulated losses €'000</b>	<b>Total €'000</b>
Balance at 1 January 2014	10	(239)	(229)
Profit for the year	-	90	90
Total comprehensive income for the year ended 31 December 2014	-	90	90
Share capital increase	100	-	100
Balance at 31 December 2014	<u>110</u>	<u>(149)</u>	<u>(39)</u>
<b>Balance at 1 January 2015</b>	<b>110</b>	<b>(149)</b>	<b>(39)</b>
Profit for the year	-	38	38
Total comprehensive income for the year ended 31 December 2015	-	38	38
<b>Balance at 31 December 2015</b>	<b><u>110</u></b>	<b><u>(111)</u></b>	<b><u>(1)</u></b>

The notes on pages 16 to 38 form an integral part of these financial statements.

**Cash Flow Statement**

	<b>Year ended 31 December</b>	
	<b>2015</b>	<b>2014</b>
<b>Note</b>	<b>€'000</b>	<b>€'000</b>
<b>Cash flows from operating activities</b>		
Cash payments to suppliers	(45)	(40)
<b>Net cash flows used in operating activities</b>	<b>(45)</b>	<b>(40)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share capital increase	-	100
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>100</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(45)</b>	<b>60</b>
Cash and cash equivalents at beginning of year	<b>78</b>	<b>18</b>
Cash and cash equivalents at end of year	<b>33</b>	<b>78</b>
10		

The notes on pages 16 to 38 form an integral part of these financial statements.

## Notes to the Financial Statements

### 1. General information

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

### 2. Accounting policies

#### 2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the IASB, as endorsed by the European Union (“EU”) and in particular with those IFRSs and IFRIC interpretations issued and effective as at the time of preparing these statements, and in accordance with the Companies (Jersey) Law 1991.

#### Going concern considerations

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

#### Macroeconomic environment

In 2015, the macroeconomic environment in Greece has been very challenging for the Greek banking system. In the first half of the year, the prolonged uncertainty relating to an agreement with the Eurozone partners over the implementation of the required reforms for the conclusion of the Second Economic Adjustment Program, the unsuccessful expiration of the former, the tightened liquidity conditions due to the financing problems of the Greek State and the significant deposit outflows – already observed from late 2014 – led to the imposition of restrictions in banking transactions (“capital controls”) together with a temporary bank holiday on 28 June 2015. In mid - August the Greek Government reached a final agreement with its European partners on a new 3-year European Stability Mechanism (“ESM”) program – the Third Economic Adjustment Program (“TEAP”) - with a ca € 86 bn financing envelope and a series of reforms aiming to restore fiscal sustainability, safeguard financial stability, enhance growth, competitiveness and investment and develop a modern state and public administration. The Greek Government managed to complete two sets of prior actions from the program at the end of November and December 2015. By mid - December 2015, the systemic banks’ recapitalization was completed with only ca € 5.4 bn used from the initial buffer of up to € 25 bn. The unused funds were subtracted from the ESM loan, reducing it to ca € 64.5 bn as of the end of January 2016.

Currently, the economic conditions in Greece remain challenging. The main risks and uncertainties are associated with (a) the delay in the conclusion of the first review of the TEAP, (b) the negative effect on the real economy of any additional fiscal measures to those already agreed under the TEAP, (c) the rising domestic sociopolitical tensions due to the effect of the domestic recession since 2008 and the reform fatigue, (d) the further delay in the lift of capital controls, (e) the impact of the refugee crisis in the internal economy if the upcoming EU solution is not sustainable and (f) the geopolitical conditions in the broader region and the external shocks from the global economy.



## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

A swift completion of the program review may contribute to significant positive developments, including the reinstatement by ECB of the waiver for the instruments issued by the Hellenic Republic, the participation in the ECB's quantitative easing ("QE") program, the initiation of the official discussions on additional debt relief measures to Greece and the gradual relaxation of the capital controls that will eventually lead to their full removal. Furthermore, the demonstrated resilience of the Greek economy, the successful recapitalization of the domestic banking system in 2015 and the mobilization of EU funding to support domestic investment and job creation could facilitate a further stabilization of the domestic environment and a resumption of positive economic growth as early as in the second half of 2016.

#### Liquidity risk

After the gradual normalization of the economic and political situation in Greece and following the Bank's successful recapitalization, the Parent Company's group enhanced its liquidity position and reduced its dependence on Eurosystem funding amounting to € 24.3 bn at the end of February 2016 from € 33.3 bn early July 2015 through repo transactions in the interbank market, an increase in deposits and the proceeds from the share capital increase.

In accordance with the agreement with the European partners, the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program. The decisive implementation of the measures agreed in the context of the new ESM program will permit ECB to reinstate the waiver for the instruments issued by the Hellenic Republic and will signal the gradual repatriation of deposits in the banking system, which is a major priority for the Parent Company's group, and the further re-access to the markets for liquidity.

#### Solvency risk

On 31 October 2015, the ECB announced the results of the comprehensive assessment ("CA") based on which, a shortfall of € 0.3 bn in baseline scenario against 9.5% Common Equity Tier 1 ("CET1") threshold and € 2.1 bn in adverse scenario against 8% CET1 threshold, the lowest shortfall across Greek banks, was identified for the Parent Company. Following the CA results and in line with the new recapitalization framework introduced by Law 4340/2015, the Bank proceeded to a capital increase of € 2,039 million, which was covered exclusively from the markets. As a result, the Parent Company's group strengthened further its capital base and its CET1 ratio stood at 17% at the end of December 2015.

Notwithstanding the direct and indirect exposure of the banking system to sovereign risk, the successful completion of the Bank's and other Greek systemic banks' recapitalization process constituted a key milestone for rebuilding trust in the banking system and in the economy in general.

The Parent Company's group continues implementing its medium term internal capital generating plan, which includes initiatives generating or releasing CET1 capital and/or reducing risk weighted assets. One of the key areas of focus remains the active management of non-performing loans, taking advantage of the Parent Company's group internal infrastructure and the important legislative changes that have taken or are expected to take place, aiming to substantially reduce their stock in due course.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### Going concern assessment

The Board of Directors, taking into consideration the above factors relating to the adequacy of the capital position of the Parent Company and its anticipated continued access to Eurosystem funding over the foreseeable future, and despite the existing uncertainties relating to the completion of the first review of the current economic program and the ongoing developments in Greece, have been satisfied that the financial statements of the Company can be prepared on a going concern basis.

The policies set out below have been consistently applied to the years 2015 and 2014, except as described below. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

##### (a) Amendments to standards and new interpretations adopted by the Company

The following amendments to standards and new interpretations, as issued by the International Accounting Standards Board ("IASB") and the IFRS Interpretation Committee ("IC") and endorsed by the European Union ("EU"), which are relevant to the Company, apply from 1 January 2015:

##### **Annual Improvements to IFRSs 2011-2013 Cycle**

The amendments introduce key changes to three IFRSs, following the publication of the results of the IASB's 2011-13 cycle of the annual improvements project, as follows:

- Clarify that IFRS 3 'Business Combinations' does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself;
- Clarify that the exception in IFRS 13 'Fair Value Measurement' for measuring the fair value of a group of financial assets and financial liabilities on a net basis applies to all contracts within the scope of, and accounted for in accordance with, IAS 39 'Financial Instruments: Recognition and Measurement' or IFRS 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities under IAS 32 'Financial Instruments: Presentation';
- Address the interrelationship between IFRS 3 'Business Combinations' and IAS 40 'Investment Property', clarifying in the latter that an entity should assess whether: (a) the acquired property is investment property under IAS 40 and (b) the acquisition of investment property constitutes a business combination as defined in IFRS 3.

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

##### **IFRIC 21, Levies**

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy that is not income tax when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, for example a specified level of revenue, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

(b) New standards and amendment to standards not yet adopted by the Company

A number of new standards and amendments to existing standards are effective after 2015, as they have not yet been endorsed by the European Union or have not been early adopted by the Company. Those that may be relevant to the Company are set out below:

#### **IAS 1, Amendment - Disclosure initiative (effective 1 January 2016)**

The amendment clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

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

#### **IAS 7, Amendment – Disclosure Initiative (effective 1 January 2017, not yet endorsed by EU)**

The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities.

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

#### **IFRS 9, Financial Instruments (effective 1 January 2018, not yet endorsed by EU)**

In July 2014, the IASB published the final version of IFRS 9 which replaces IAS 39 'Financial Instruments'. IFRS 9 sets out revised requirements on the classification and measurements of financial assets, addresses the reporting of fair value changes in own debt when designated at fair value, replaces the existing incurred loss model used for the impairment of financial assets with an expected credit loss model and incorporates changes to hedge accounting.

#### **Classification and measurement**

IFRS 9 applies one classification approach for all types of financial assets, according to which the classification and measurement of financial assets is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A business model refers to how an entity manages its financial assets so as to generate cash flows, by collecting contractual cash flows, or selling financial assets or both. Upon assessment, each financial asset will be classified in one of the three categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income.

With regard to financial liabilities, the treatment followed in IAS 39 is carried forward to IFRS 9 essentially unchanged. However, IFRS 9 requires fair value changes of liabilities designated at fair value under the fair value option which are attributable to the change in the entity's own credit risk to be presented in other comprehensive income rather than in profit or loss, unless this would result in an accounting mismatch.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### Impairment of financial assets

IFRS 9 introduces an expected credit loss model that will apply to all financial instruments that are subject to impairment accounting and replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognized.

Under IFRS 9, a loss allowance will be recognized for all financial assets, therefore the new requirements will result in the earlier recognition of credit losses.

The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month expected credit losses will be recognized for all financial assets for which there is no significant increase in credit risk since initial recognition. For financial assets that have experienced a significant increase in credit risk since initial recognition as well as purchased or originated credit impaired financial assets, a loss allowance equal to lifetime expected credit losses will be recognized. The measurement of expected credit losses will be a probability-weighted average amount that will reflect the time value of money. In measuring expected credit losses, information about past events, current conditions and forecasts of future conditions should be considered.

##### Hedge accounting

IFRS 9 introduces a reformed model for hedge accounting, seeking to more closely align hedge accounting with risk management activities so as to better reflect these activities in the entities' financial statements. Under the new model, new hedge effectiveness requirements apply, discontinuation of hedge accounting is allowed only under specific circumstances, and a number of items that were not eligible under IAS 39 as hedging instruments or hedged items are now eligible.

The Company is currently examining the impact of IFRS 9 on its financial statements, which is impracticable to quantify as at the date of the publication of these financial statements.

##### Annual Improvements to IFRSs 2010-2012 Cycle (effective 1 January 2016)

The amendments introduce key changes to seven IFRSs following the publication of the results of the IASB's 2010-12 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Definition of vesting condition in IFRS 2 'Share – based Payment';
- Accounting for contingent consideration in a business combination in IFRS 3 'Business Combinations';
- Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets in IFRS 8 'Operating Segment';
- Short-term receivables and payables in IFRS 13 'Fair Value Measurement';
- Revaluation method—proportionate restatement of accumulated depreciation in IAS 16 'Property, Plant and Equipment';
- Key management personnel in IAS 24 'Related Party Disclosures'; and
- Revaluation method—proportionate restatement of accumulated amortization in IAS 38 'Intangible Assets'

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.1 Basis of preparation (continued)

##### Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)

The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2012-14 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Clarifying in IFRS 5 'Non-current assets held for sale and discontinued operations' that, when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution', or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
- Adding in IFRS 7 'Financial instruments: Disclosures' specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It also clarifies that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34.
- Clarifying in IAS 19 'Employee benefits' that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise.
- Clarifying in IAS 34 'Interim financial reporting' what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'.

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

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

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

#### Presentation and Functional Currency

The Company's presentation currency is the Euro (€) being the functional currency of the Company. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Except as indicated, financial information presented in Euros has been rounded to the nearest thousand.

#### Foreign currencies

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.2 Interest income and expense

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

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

#### 2.3 Financial assets

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

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

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

- a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
- b) financial assets share the same risks with financial liabilities and those risks are managed and evaluated on a fair value basis; or
- c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

##### (ii) Loans and receivables

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

##### (iii) Held-to-maturity

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.3 Financial assets (continued)

##### *Accounting treatment and calculation*

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

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

A financial asset is derecognised when the contractual cash flows expire or the Company transfers its rights to receive those cash flows in an outright sale in which substantially all the risks and rewards of ownership have been transferred.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the consideration received, including any new asset obtained less any new liability assumed is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

#### 2.4 Fair value measurement of financial instruments

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

When available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.4 Fair value measurement of financial instruments (continued)

the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out.

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

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

#### 2.5 Impairment of financial assets

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

Objective evidence that a financial asset or group of financial assets is impaired refers to observable data that comes to the attention of the Company about the following loss events:

- (a) significant financial difficulty of the issuer or borrower;
- (b) a default or breach of contract;
- (c) significant changes in the financial performance of the borrower that affect the borrower's ability to meet its debt obligations, such as:
  - operating losses;
  - working capital deficiencies;
  - the borrower having a negative equity;
- (d) other facts indicating a deterioration of the financial performance of the borrower, such as a breach of terms, or a partial write-off of the borrower's obligations due to economic or legal reasons relating to his financial status;
- (e) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (f) it is becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- (g) significant adverse changes in the borrower's industry or geographical area that could affect his ability to meet its debt obligations;
- (h) market related information including the status of the borrower's other debt obligations; and
- (i) a significant downgrade in the internal or external credit rating of the borrower's financial instruments when considered with other information;



## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.5 Impairment of financial assets (continued)

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

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

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

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

#### 2.6 Financial liabilities

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

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

- (a) it eliminates or significantly reduces measurement or recognition inconsistencies; or
- (b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or
- (c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

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

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.6 Financial liabilities (continued)

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

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

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

#### 2.7 Cash and cash equivalents

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

#### 2.8 Offsetting

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

#### 2.9 Related party transactions

Related parties of the Company include:

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

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

#### 2.10 Provisions

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

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

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

#### 2.10 Provisions (continued)

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

#### 2.11 Share capital

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

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

### 3. Principal risks and uncertainties

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

(a) Credit Risk: The Company takes on exposure to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when due. The aggregate carrying amount of deposits with banks, financial assets designated at fair value and held-to-maturity investment securities approximates the maximum exposure to credit risk. Proceeds from the issue of preferred securities are invested in notes issued by the Parent Company.

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

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

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

(c) Capital risk management: The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies (Jersey) Law 1991. The Company has not breached the minimum requirement.

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

## Notes to the Financial Statements (continued)

### 3. Principal risks and uncertainties (continued)

#### Fair value of financial assets and liabilities

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

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

- Level 1 - Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. None of the Company's financial instruments are categorised into Level 1 of the fair value hierarchy.
- Level 2 – Financial instruments measured using valuation techniques with inputs, other than level 1 quoted prices, that are observable either directly or indirectly. In particular, the Company uses quoted prices for identical financial instruments in markets that are not active. In addition to that, for the comparative period, inputs other than quoted prices were also used that were directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, credit spreads and implied volatilities obtained from internationally recognised market data providers. The Company's financial instruments in their entirety are categorized into Level 2 of fair value hierarchy.

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

## Notes to the Financial Statements (continued)

### 3. Principal risks and uncertainties (continued)

Valuation controls applied by the Company have been developed by the Parent Company and may include verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc.

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

#### Financial instruments carried at fair value

The fair value of financial assets and preferred securities designated at fair value through profit or loss (series D) is determined by the market and in particular from Bloomberg. For 31 December 2015 the market is pricing a self-consistent set of prices for Tier I instruments. This was not the case for the comparative period. Consequently, their fair value was determined by discounting the expected cash flows at a risk adjusted rate. In particular, the yield of the Series C preferred securities not carried at fair value, as retrieved from Bloomberg, was used as proxy and applied to the terms of preferred securities designated at fair-value-through-profit-or-loss.

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

	2015			
	Level 1	Level 2	Level 3	Total
	€' 000	€' 000	€' 000	€' 000
Financial assets designated at fair value	-	8,742	-	8,742
	-	8,742	-	8,742
Preferred securities designated at fair value	-	8,742	-	8,742
	-	8,742	-	8,742
	2014			
	Level 1	Level 2	Level 3	Total
	€' 000	€' 000	€' 000	€' 000
Financial assets designated at fair value	-	9,845	-	9,845
	-	9,845	-	9,845
Preferred securities designated at fair value	-	9,845	-	9,845
	-	9,845	-	9,845

The Company recognises transfers into and out of the fair value hierarchy levels at the beginning of the half year in which a financial instrument's transfer was affected. There were no transfers between Level 1 and 2 and vice versa during the year ended 31 December 2015.

## Notes to the Financial Statements (continued)

### 3. Principal risks and uncertainties (continued)

#### Financial instruments not carried at fair value

The fair value hierarchy categorization of the Company's financial assets and liabilities not carried at fair value on the balance sheet is presented in the following tables:

	2015				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value €' 000	Carrying amount €' 000
Held to maturity investment securities	-	24,235	-	24,235	54,090
	-	24,235	-	24,235	54,090
Preferred securities at amortised cost	-	24,235	-	24,235	54,093
	-	24,235	-	24,235	54,093

  

	2014				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value €' 000	Carrying amount €' 000
Held to maturity investment securities	-	158,387	-	158,387	348,025
	-	158,387	-	158,387	348,025
Preferred securities at amortised cost	-	158,387	-	158,387	348,093
	-	158,387	-	158,387	348,093

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value are as follows:

For preferred securities issued by the Company and the respective mirror assets (held to maturity portfolio), the fair values are determined using quotes for identical debt securities in markets that are not active. In particular, as at 31 December 2015 and for the comparative period they were fair valued using prices provided by Bloomberg.

### 4. Critical accounting estimates and judgements in applying accounting policies

In the process of applying the Company's accounting policies, the Company's directors makes various judgements, estimates and assumptions that affect the reported amounts of assets and liabilities recognised in the financial statements within the next financial year. Estimates and judgements are regularly evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.1 Impairment losses of held to maturity investment securities

The Company reviews its held to maturity investment securities to assess impairment on an ongoing basis. The Company first assesses whether objective evidence of impairment exists. Management is required to exercise judgement in making assumptions and estimates when calculating the present value of the cash flows expected to be received. In estimating these cash flows, management makes judgements about the financial situation and outlook of the Parent Company.

## Notes to the Financial Statements (continued)

### 4.2 Fair value of financial instruments

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

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

Valuation models are used to value financial assets and preferred securities designated at fair value through profit or loss. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel of the Parent Company independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. The main assumptions and estimates, considered by management when applying a valuation model include:

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

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

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

### 5. Interest and similar income

	<u>2015</u>	<u>2014</u>
	<u>€' 000</u>	<u>€' 000</u>
Interest on financial assets designated at fair value through profit or loss	-	-
Interest on held-to-maturity investment securities	<u>15,971</u>	<u>33,010</u>
	<u>15,971</u>	<u>33,010</u>

Interest on held-to-maturity investment securities for the year ended 31 December 2015 consists of: a) the NPV unwinding of the impairment loss of € 119,126 ths recognized in 2013 (note 12) and b) the amortisation of discount. There have been no cash receipts of interest.

Information in relation with the non payment of bonds' coupon during 2015 is provided in note 11 and note 12.

## Notes to the Financial Statements (continued)

### 6. Interest expense and similar charges

	2015	2014
	€' 000	€' 000
Interest on preferred securities designated at fair value through profit or loss	-	-
Interest on preferred securities at amortised cost	<u>(15,939)</u>	<u>(32,946)</u>
	<u>(15,939)</u>	<u>(32,946)</u>

Interest on preferred securities at amortized cost for the year ended 31 December 2015 consists of: a) the unwinding of the NPV adjustment amounting to € 118,844 the gain in 2013 (note 14) and b) the amortisation of discount. There have been no cash payments of interest.

Information in relation with the non payment of preferred securities dividend during 2015 is provided in Note 13 and Note 14.

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

	2015	2014
	€' 000	€' 000
Changes in fair value of financial liabilities designated at fair value	1,103	157,805
Changes in fair value of financial assets designated at fair value	<u>(1,103)</u>	<u>(157,805)</u>
	<u>-</u>	<u>-</u>

For 2014, change in fair value includes mark-to-market reversal for preferred securities/investment securities following the repurchase agreement with the Parent Company.

### 8. Operating expenses

	2015	2014
	€' 000	€' 000
Fees payable to the Company's auditor for the statutory audit of the Company's annual financial statements	(25)	(22)
Secretarial and administration services	<u>(6)</u>	<u>(29)</u>
	<u>(31)</u>	<u>(51)</u>

### 9. Income tax expense

The Company is liable to pay Jersey income tax at 0% (2014: 0%).

### 10. Deposits with banks

	2015	2014
	€' 000	€' 000
Deposits with the Parent Company	33	78
	<u>33</u>	<u>78</u>

The sight accounts with the Parent Company have been considered as cash and cash equivalents for the purposes of the cash flow statement (note 2.7).



## Notes to the Financial Statements (continued)

### 11. Financial assets designated at fair value through profit or loss

Series	First call date	Maturity date	Interest rate	2015		2014	
				Face Value €' 000	Fair Value €' 000	Face Value €' 000	Fair Value €' 000
Series D	October 2014	29 July 2100	Fixed rate at 8.25% per annum, payable on a quarterly basis	21,000	8,742	21,000	9,845
				<u>21,000</u>	<u>8,742</u>	<u>21,000</u>	<u>9,845</u>

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

As part of the Company's risk management strategy (Note 3), these convertible bonds have been designated upon their initial recognition as at fair value through profit or loss, because they share the same risks with linked preferred securities issued by the Company and these risks are managed and evaluated on a fair value basis.

In 2013, 2014 and 2015, the Parent Company considering that (a) there were not sufficient distributable reserves to meet the payment of dividends in respect of preferred securities and (b) being a recipient of state aid, according to EU and Greek law, was not permitted to make discretionary cash payments to any third party, including the Company, and decided on the non payment of bonds' coupons of Series D. In particular, the coupons of Series D payable in January 2015, April 2015, July 2015, October 2015 and January 2016, were not paid, while the Company agreed to amend the terms of the bonds so as to waive its right, on an one off basis, to receive them on the respective scheduled payment dates. As a result, the Company has not recognized any interest income for Series D of bonds issued by the Parent Company for the year ended 31 December 2015.

### 12. Held-to-maturity investment securities

Series	First call date	Maturity date	Interest rate	2015		2014	
				Face Value €' 000	Carrying amount €' 000	Face value €' 000	Carrying amount €' 000
Series A	March 2013	18 March 2035	Fixed rate at 10 year euro swap rate plus 0.135% per annum, payable on an annual basis	2,131	2,089	73,198	69,516
Series B	November 2015	2 November 2035	3M Euribor plus 2.23%, payable on quarterly basis	4,629	4,477	151,351	140,576
Series C	July 2012	9 January 2036	Fixed rate 6.01% per annum, payable on a quarterly basis	50,359	47,524	157,416	137,933
				<u>57,119</u>	<u>54,090</u>	<u>381,965</u>	<u>348,025</u>

## Notes to the Financial Statements (continued)

### 12. Held-to-maturity investment securities (continued)

In May 2012, the Company replaced held-to-maturity investment securities issued by a Parent Company's subsidiary, ERB Hellas PLC, guaranteed by the Parent Company, with securities issued directly by the Parent Company. The purchased securities bear the same terms as the replaced notes issued by ERB Hellas PLC. The securities may be redeemed prior to final maturity, at the option of the issuer, i.e. the Bank, on the dates presented above and annually or quarterly (subject to the terms of each issue) thereafter. The investments are classified as held-to-maturity as the Company's management has the positive intention and ability to hold to maturity.

In 2013, 2014 and in 2015, the Parent Company considering that (a) there were not sufficient distributable reserves to meet the payment of dividends in respect of preferred securities and (b) being a recipient of state aid, according to EU and Greek law, is not permitted to make discretionary cash payments to any third party, including the Company, decided the non payment of bonds' coupons of Series A, B, and C. In particular, in 2015, the coupons of Series A payable in March 2015 and March 2016, Series B payable in November 2015 and February 2016 and Series C payable in January 2015, April 2015, July 2015, October 2015 and January 2016 were not paid, while the Company agreed to amend the terms of the bonds so as to waive its right to receive them, on an one off basis, on the respective scheduled payment dates.

In 2013 the Company considered that the above event provided evidence of a concession granted to the borrower (the Parent Company) that would not otherwise be considered, and as a result an impairment loss of € 119,126 ths was recognised.

As at 31 December 2015, following the Liability Management Exercise ("LME") launched by the Bank and taking into account the subsequent cancellation of the held-to-maturity investment securities issued by the Parent Company (note 18) of equal face value to the mirror Tier I notes issued by the Company that participated in the said LME, the Company proceeded with the reversal of the unamortized impairment loss recognized in 2013 that corresponded to the cancelled investment securities, of € 1,860 ths.

In addition, on the same date, the Company taking into account the commitments of the Parent Company's revised restructuring plan approved on 26 November 2015 including, inter-alia, restrictions on coupons' payment, revised its estimates for the bonds' present value of their future cash flows and adjusted their impairment loss by € 1,081 ths accordingly.

In October 2015 the Parent Company proceeded with the cancellation of series A, B and C of face value of € 71 million, € 147 million and € 107 million respectively.

### 13. Preferred securities designated at fair value through profit or loss

Series	First call date	2015		2014	
		Face Value €' 000	Fair Value €' 000	Face Value €' 000	Fair Value €' 000
Series D	October 2014	21,000	8,742	21,000	9,845
		<u>21,000</u>	<u>8,742</u>	<u>21,000</u>	<u>9,845</u>

On 29 July 2009, the Company issued € 300 million of preferred securities (series D), the outstanding face value of which amounts to € 21 million. The preferred securities have no fixed redemption date and give the issuer the right to call the issue on the date presented above and annually thereafter. In addition, the securities subject to certain conditions, are convertible at the option of the holder and the issuer on October 2014 and annually thereafter into the Parent Company's ordinary shares at the lower of an

## Notes to the Financial Statements (continued)

### 13. Preferred securities designated at fair value through profit or loss (continued)

exchange ratio based on a) 12% discount to the share market price during the period preceding the exchange or b) the nominal value of the Parent Company's ordinary share. All obligations of the issuer in respect of the preferred securities are guaranteed on a subordinated basis by the Parent Company. The securities, pay fixed non-cumulative dividend on a quarterly basis at a rate of 8.25% per annum. Preferred dividends on the preferred securities are declared by the directors of the Company and paid by the Company subject to the provisions relating to compulsory payments as set out in "Description of the Preferred Securities" and to certain limitations as set out in "Limitations on Payments" in the Prospectus of the issue, available at the Parent Company's website ([www.eurobank.gr](http://www.eurobank.gr)). The preferred securities are listed on the London Stock Exchange.

In 2013, 2014 and 2015, the directors of the Company considering the "Limitations of Payments" as set out in the Prospectus of the issue and the Parent Company's decision for the non payment of bonds coupons (note 11), proceeded with the non payment of Series D preferred dividends. In particular, in 2015 proceeded with the non payment of the preferred dividends of series D that otherwise would have been paid in January 2015, April 2015, July 2015, October 2015 and January 2016. As a result, the Company has not recognised any interest expense for Series D of the preferred securities for the year ended 31 December 2015.

As at 31 December 2015, the fair value change was € 12,258 ths gain (2014: € 11,155 ths gain), which takes into account the credit risk of the Parent Company. The changes in the fair value of preferred securities are offset in the statement of comprehensive income against the changes in the fair value of financial assets designated at fair value.

### 14. Preferred securities at amortised cost

Series	First call date	Interest rate	2015		2014	
			Face value €' 000	Carrying amount €' 000	Face value €' 000	Carrying amount €' 000
Series A	March 2010	Fixed rate at 10 year euro swap rate plus 0.125% per annum, payable on an annual basis	2,131	2,089	73,198	69,531
Series B	November 2015	3M Euribor plus 2.22%, payable on quarterly basis	4,629	4,478	151,351	140,603
Series C	January 2011	Fixed rate 6.00% per annum, payable on a quarterly basis	50,359	47,526	157,416	137,959
			<u>57,119</u>	<u>54,093</u>	<u>381,965</u>	<u>348,093</u>

The preferred securities have no fixed redemption date and give the issuer the right to call the issue at par, if certain conditions mentioned in the Offering Circular are met, on the dates presented above and annually or quarterly thereafter (subject to the terms of each issue). All obligations of the issuer in respect of the preferred securities are guaranteed on a subordinated basis by the Parent Company. The preferred

## Notes to the Financial Statements (continued)

### 14. Preferred securities at amortised cost (continued)

securities pay non cumulative dividends which are declared by the directors of the Company and paid by the Company subject to the provisions relating to compulsory payments as set out in “Description of the Preferred Securities”, and to certain limitations as set out in “Limitations on Payments” in the Prospectus of each issue, available at the Parent Company’s website ([www.eurobank.gr](http://www.eurobank.gr)). The preferred securities are listed on various European Stock Exchanges, including London, Frankfurt, Luxembourg and Euronext Amsterdam.

In 2013, 2014 and in 2015, the directors of the Company considering the “Limitations of Payments” as set out in the Prospectus of each issue and the Parent Company’s decision for the non payment of bonds coupons (note 12), proceeded with the non payment of dividends of series A, B and C. In particular, in 2015, they proceeded with the non payment of Series A preferred dividend that otherwise would have been paid in March 2016, Series B preferred dividends that otherwise would have been paid in November 2015 and February 2016 and Series C preferred dividends that otherwise would have been paid in January 2015, April 2015, July 2015, October 2015 and January 2016.

In 2013, the Company, based on its estimates of dividend payments on the preferred securities, recognized an adjustment of € 118,844 ths. As at 31 December 2015, the Company proceeded with the reversal of an amount of € 1,857 ths of the said unamortized adjustment corresponding to the Tier I notes that participated in the Parent Company’s LME (Note 18).

At the same date, the Company taking into account the commitments of the Parent Company’s revised restructuring plan approved on 26 November 2015 including, inter-alia, restrictions on dividends’ payment, revised its estimates on the preferred securities’ present value of their future cash outflows and recognized an additional adjustment of € 1,079 ths.

On 22 October 2015 the Parent Company proceeded with the buy back and the subsequent cancellation of face value of € 325 million (€ 71 million Series A, € 147 million Series B, and € 107 million Series C) of the preferred securities issued by the Company, and held by the Bank’s subsidiary, ERB Hellas Cayman.

As a result of this transaction, the Company recognised net gains of € 36 ths (€ 14,164 ths gains from the repurchase of investment securities by the Parent Company and € 14,128 ths loss from the repurchase of preferred securities).

### 15. Share capital

	31 December 2015		31 December 2014	
	Number	€'000	Number	€'000
Authorised ordinary shares of € 1 each	1,000,000	1,000	1,000,000	1,000
Issued ordinary shares of € 1 each	110,000	110	110,000	110
Allotted and fully paid ordinary shares of € 1 each	110,000	110	110,000	110

### 16. Related party transactions

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

In May 2014, following the completion of the Parent Company’s share capital increase fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by the HFSF, the controlling shareholder of the Bank until that date, decreased from 95.23% to 35.41%.

## Notes to the Financial Statements (continued)

### 16. Related party transactions (continued)

Accordingly, as of that date HFSF was considered to have significant influence over the Parent Company. In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others, the percentage of the ordinary shares with voting rights held by HFSF decreased to 2.38%.

In the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Bank's General Assembly only for certain decisions provided in the said law. In addition, the Parent Company has entered into a new Relationship Framework Agreement ("RFA") with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014. Taking into account the terms of the revised RFA, the HFSF is still considered to have significant influence over the Bank and therefore, it is considered to be a related party to the Parent Company.

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

The related party transactions and outstanding balances at the year end are as follows:

	31 December 2015		31 December 2014	
	Parent Company €' 000	Parent Company's subsidiaries €' 000	Parent Company €' 000	Parent Company's subsidiaries €' 000
Deposits with banks	33	-	78	-
Financial assets designated at fair value through profit or loss	8,742	-	9,845	-
Held-to-maturity investment securities	54,090	-	348,025	-
Preferred securities designated at fair value through profit or loss	624	-	-	-
Preferred securities at amortised cost	31,057	-	-	297,634
Interest and similar income	15,971	-	33,010	-
Interest expense and similar charges	316	12,531	14,575	12,894
Net gains on redemption of investment and preferred securities	36	-	77	-

### Emoluments of the Directors

Peter Gatehouse and Stephen Langan are directors of certain subsidiaries of Elian Fiduciary Services (Jersey) Limited, including Elian SPV Services Limited which provides administrative services to the Company (Note 8).

### 17. Segmental reporting

The Company operates in one business segment i.e. providing funding to its immediate parent company, Eurobank Ergasias S.A. through the issue of preferred securities listed on various European Stock Exchanges. No further disclosure in this regard is therefore deemed necessary.

## Notes to the Financial Statements (continued)

### 18. Other significant and post balance sheet events

#### Liability Management Exercise (LME)

On 29 October 2015, the Parent Company launched a Liability Management Exercise (LME), aiming to strengthen the Bank's CET1 and, in combination with a share capital increase through a book-building process, to cover its additional capital requirements, which had been derived from the Comprehensive Assessment of the Greek financial sector that was conducted by the SSM.

LME was effected on a voluntary basis referring to the tender offer on € 877 million (face value) of outstanding eligible senior unsecured, Tier I and Tier II securities, issued by the Parent company and its SPVs (ERB Hellas Funding, ERB Hellas PLC and ERB Hellas Cayman).

On 23 November 2015, the Bank announced that the aggregate purchase proceeds of the securities accepted as part of the LME amounted to € 418 million of which Tier I securities amounted to € 17 million, corresponding to face value of € 34 million (Series A: € 0.5 million, Series B: € 0.9 million, Series C: € 31.4 million, Series D: € 1.5 million).

On 25 February 2016, the Company proceeded with the cancellation of the Tier I issues accepted as part of the LME of face value of € 34 million and the Parent company with the subsequent cancellation of preferred securities held by the Company, of € 34 million, of which € 1.5 million were designated at fair value through profit or loss and € 32.8 million were held to maturity investment securities.

#### Share Capital Increase of the Company

In April 2016 the Parent Company decided to proceed with a share capital increase of the Company by an amount of € 200,000.

Other than the above, there were no other significant events warranting disclosure.