

ERB Hellas (Cayman Islands) Limited

Annual Report

For the year ended 31 December 2017

Company's registration number: CR-117363

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Declaration of the managers responsible for financial reporting

The undersigned Anastasios Ioannidis, director of ERB Hellas (Cayman Islands) Limited (the "Company" or the "Issuer"), to the best of his knowledge, hereby declares that the annual non statutory 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 report of the directors includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that the Company is exposed to.



Anastasios Ioannidis
Director

4 October 2018

Directors' Report

The Directors submit their report and the audited non statutory financial statements of the Company for the year ended 31 December 2017.

i) Business review and principal activities

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

The Company was incorporated as part of the funding strategy of Eurobank Ergasias S.A. (the "Parent Company" or the "Bank") in order to establish a program for the issuance of medium term debt instruments (EMTN). This program was last updated in May 2018. The Prospectus of EMTN program is available at the Parent Company's website (www.eurobank.gr). The outstanding issues of debt instruments are guaranteed by the Parent Company. The net proceeds of each issuance are applied by the Company to meet part of the general financing requirements of the Company's Parent Company and its subsidiaries.

The loss for the year amounted to € 125 ths (2016: € 45 ths loss). As at 31 December 2017 the total equity of the Company amounted to € 503 ths (2016: € 628 ths). During the year loan notes of face value of € 427 ths matured, while the Company proceeded with the partial redemption and the issue of loan notes of face value of € 9,543 ths and of € 1,300 ths respectively. No dividend was paid to shareholders during 2017 (2016: nil).

ii) Business environment, strategy and future outlook

The Company's business strategy and activities are linked to those of its Parent Company. In 2017, the return of the Greek economy to positive growth rates and the better economic climate following the completion of the second review of the Third Economic Adjustment Program (TEAP), improved the domestic conditions for the Greek banks. In this environment, the Parent Company's group remained profitable by expanding its core pre-provision income, enhanced its capital and liquidity position and reduced the Non Performing Exposures (NPEs) stock, exceeding the annual target.

The fourth and final review of the TEAP for Greece was concluded successfully on the 21 June 2018 Eurogroup, after the implementation of a series of prerequisite reforms. The official end of the TEAP was on 20 August 2018. According to the aforementioned Eurogroup, the final disbursement from the European Stability Mechanism (ESM) loan to Greece amounted to €15.0bn out of which €5.5bn will be used for the servicing of the 2018 debt financing needs while the remaining €9.5bn will be used for the cash buffer aiming to facilitate Greece's access to the international markets in the post program period. This cash buffer is currently expected at €24.1bn and it aims to cover the sovereign financial needs for around 22 months following the end of the program in August 2018.

For the post program period, according to the decisions on 21 June 2018 Eurogroup, a strict surveillance process will be followed with quarterly reviews and certain conditionality / prerequisite reforms, linked to the return of income equivalent amounts from the bonds purchased by the ECB and the central banks of Eurozone member states under the "Securities Markets Program - Agreement on Net Financial Assets" (SMP-ANFA) program in order to be used for reducing gross financing needs and / or financing other agreed investments, as well as to the abolition of the step-up interest rate margin up to 2022. This enhanced post program surveillance's main purpose is to safeguard financial stability, and continue the process of implementation of structural reforms aiming, among others, to boost domestic growth, jobs creation and to modernize the public sector. Regarding sovereign debt sustainability, on 21 June 2018 the Eurogroup decided, in addition to the return of the SMP-ANFA income equivalent amounts and to the

Directors' Report

abolition of the step-up interest rate margin up to 2022, the further extension of the interest and amortization of the loan received under the Second Economic Adjustment Programme for Greece by 10 years and the extension of the loan's maximum weighted average maturity by 10 years.

On 10 August 2018, Fitch upgraded Greece to BB- from B with a stable outlook on the basis of the conclusion of the fourth review, the decision on the medium term debt relief measures, the end of the TEAP and the improved economic and fiscal conditions. On 25 June 2018, Standard & Poor's upgraded the Greek sovereign rating from B to B+ with a stable outlook on the basis of the 21 June 2018 Eurogroup's decisions. More recently, on 20 July 2018, Standard & Poor's revised its outlook on Greece to positive from stable on improved policy predictability and growth prospects. The sovereign's rating is still significantly below the investment grade rating but the recent upgrades and the progress on program implementation led to the improvement of the yield of the Greek 10-YR bonds from 5.40% on 30 November 2017 to 4.07% on 21 September 2018.

According to the Hellenic Statistical Authority (ELSTAT) data, in 2017 real GDP growth rate turned positive at 1.4% for the first time since 2014 but lower compared to official sector forecasts. According to the EC 2018 spring forecast for 2018, real GDP growth is expected at 1.9%, conditional on the prompt TEAP implementation, the timely successful conclusion of the fourth and final review of the program, ownership of reforms and a benign external environment. Real GDP growth rate is expected at 2.0%, 2.4%, 2.3%, 2.1% and 1.8% in 2018, 2019, 2020, 2021 and 2022 respectively, according to the Medium Term Fiscal Strategy 2019-22 (MTFS2019-22).

On the fiscal front, Greece's primary surplus for 2017 was at 4.2% of GDP, according to the MTFS2019-22, outperforming the respective TEAP primary surplus target of 1.75%. The TEAP primary surplus target for the period 2018 - 2022 is expected at 3.5% of GDP each year. According to the MTFS 2019-22, the respective primary surplus targets for 2018, 2019, 2020, 2021 and 2022 are expected at 3.56%, 3.96%, 4.15%, 4.53% and 5.19% of GDP respectively. The achievement of sustainable primary surpluses, at the level of 3.5% of GDP up to the end of 2022 with a gradual decrease afterwards, constitutes a necessary condition for the implementation of the medium term measures that ensure the sustainability of public debt, as decided on the Eurogroup of 21 June 2018. The current account, according to the IMF was at -0.8% of GDP in 2017 from -0.6% of GDP in 2016. According to the IMF the current account is expected at -0.8%, -0.6%, -0.4%, -0.2%, and -0.1% of GDP in 2018, 2019, 2020, 2021 and 2022 respectively.

Risks continue to surround the near-term domestic economic outlook. Based on ELSTAT data, the unemployment rate was at 21.5% in 2017. The unemployment rate in June 2018 was at 19.1%, from 21.3% in June 2017, pointing towards a slow path of decline, conditional on no unforeseen negative developments in the upcoming period. According to the MTFS 2019-2022 unemployment is expected at 19.9%, 18.2%, 16.6%, 15.4% and 14.3% in 2018, 2019, 2020, 2021 and 2022 respectively. According to ELSTAT data, the general price level (the harmonized index of consumer prices, (HICP)) recorded an increase of ca 1.0% in August 2018 from 0.9% in August 2017. According to the MTFS 2019-2022 the HICP is expected at 0.6%, 1.2%, 1.3%, 1.5% and 1.7% in 2018, 2019, 2020, 2021 and 2022 respectively.

The ongoing deleveraging in the Greek economy can be considered as a major drag for recovery. According to BoG July 2018 data, the private sector domestic credit balance stood at €177.2bn from €188.8bn in July 2017, a decrease of -6.2%. A significant part of this deleveraging was due to the reduction of the stock of NPEs. On the other side of the ledger, private sector domestic deposits amounted to €130.2bn in July 2018 from €121.2bn in July 2017, registering an increase of 7.4%.

Directors' Report

Following the conclusion of the fourth and final review of the TEAP, the recovery of deposits is closely related with the reduction of the uncertainty surrounding the post program period and the return of the country to a sustainable growth path. In addition, according to the respective ECB announcement on 5 May 2018, the four Greek systemic banks completed successfully the 2018 EBA stress tests, a positive development that contributes to the return of confidence to the banking sector.

Regarding the outlook for the next 12 months, the main macroeconomic risks and uncertainties are associated with (a) the adherence to established reforms and the possible delays in the implementation of the reforms' agenda in order to meet the targets and milestones for the post program surveillance of the country, (b) the impact on the level of economic activity and on the attraction of direct investments from the fiscal and social security-related measures agreed under the reviews of the TEAP, (c) the ability to attract new investments in the country, (d) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (e) the possible slow pace of deposits inflows and/ or possible delays in the effective management of NPEs as a result of the macroeconomic conditions in Greece and (f) the geopolitical conditions in the near or in broader region and the external shocks from a slowdown in the regional and / or global economy. Materialization of those risks would have potentially adverse effects on the liquidity and solvency of the Greek banking sector. Continuation of a subdued economic activity could affect the prospects of the Greek banking system leading to the deterioration of asset quality, prolongation or return to the dependence on Eurosystem funding, particularly on the expensive ELA mechanism, and further pressures on the revenue side from increased funding cost and lower interest and commission income.

On the other hand, the quick resolution of the uncertainty towards the post-program period will help reinstating depositors' confidence and thus accelerate the return of deposits and the complete lift of capital controls and positively influence the financing of the economy. The decisive implementation of the reforms agreed in the context both of the TEAP and in the post-program period surveillance, the implementation of the medium debt relief measures agreed in the 21 June 2018 Eurogroup decisions, the mobilization of EU funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will improve the confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a strong and sustainable growth path.

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 profit/loss, net interest income, total equity and the balances of debt instruments outstanding at the reporting date.

The assessment by the directors of the Company's ongoing business model is closely associated with the business decisions and operations of the Parent Company. On the basis of the analysis of the Parent Company's and the Company's capital solvency and liquidity, the Parent Company's outperformance of NPEs reduction targets and having taken into account the going concern considerations (note 2), the directors have been satisfied that the Company has the ability to continue as a going concern into the foreseeable future and that it is appropriate to prepare the financial statements of the Company on a going concern basis.

Directors' Report

iii) Principal risks and uncertainties

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

The principal risks and uncertainties of the Parent Company, which include those of the Company, are discussed in the Report of Directors and the notes to the Consolidated Financial Statements included in the 2018 Interim Financial Report of Eurobank Ergasias S.A., which was signed on 29 August 2018 (available at website: www.eurobank.gr).

iv) Creditor payment policy

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

v) Directors

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

- Anastasios Ioannidis
- Dimosthenis Archontidis
- Nikolaos Laios
- Dimitra Spyrou

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

vi) Parent company

In July 2017, Eurobank Ergasias S.A. (the "Parent Company" or the "Bank") acquired from its subsidiary ERB New Europe Funding III Ltd, 100% of the shares and voting rights of the Company. The Parent Company's ownership is analyzed further in note 16.

vii) Directors' responsibilities in relation to the financial statements

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

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;

Directors' Report

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

viii) Statement of disclosure of information to auditors

Each director acted during the year and up to the date of the directors' report confirms that:

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

ix) Independent Auditors

PricewaterhouseCoopers LLP have been the auditors for the financial year 2017.

According to the provisions of Greek Law 4449/2017 and following relevant proposal of the Audit Committee, the Board of Directors (BoD) of Eurobank Ergasias SA at its meeting on 24 February 2017 approved KPMG Certified Auditors A.E. (KPMG) being the successful audit firm of the tendering process for conducting the statutory audit of the financial statements of Eurobank Ergasias SA (standalone and consolidated) for the period 2018-2022, subject to obtaining every year both the BoD's proposal addressed to the Shareholders' General Meeting and the decision of the General Meeting for the appointment of KPMG as statutory auditor, as well as receiving any other necessary approvals each time in force. Following the decision of the Parent Company's General Meeting for the appointment of KPMG as statutory auditor, ERB Hellas Cayman will also appoint KPMG as statutory auditor for 2018 and PricewaterhouseCoopers LLP will resign from office.

The Directors' Report was approved by the Board of Directors on 4 October 2018 and was signed on its behalf by:

Anastasios Ioannidis



Director

4 October 2018



Independent Auditor's Report

To the Directors of "ERB Hellas (Cayman Islands) Limited"

Report on the audit of the Financial Statements

Our opinion

We have audited the accompanying financial statements of "ERB Hellas (Cayman Islands) Limited" (Company) which comprise the balance sheet as of 31 December 2017, the statements of comprehensive income, changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects the financial position of the Company as at 31 December 2017, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Basis for opinion

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

Responsibilities of the Directors and those charged with governance for the financial statements

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

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

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditor's Report (continued)

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

PricewaterhouseCoopers

Athens, 4 October 2018

Statement of Comprehensive Income


	Note	Year ended 31 December	
		2017 €'000	2016 €'000
Interest and similar income	5	855	2,288
Interest expense and similar charges	6	(856)	(2,291)
Net Interest Income		(1)	(3)
Net gains/(losses) from other financial instruments	7	0	(0)
Foreign exchange gains/(losses)		(64)	17
Operating expenses	8	(60)	(59)
Loss before income tax		(125)	(45)
Income tax expense	9	-	-
Total comprehensive loss for the year attributable to the owners of the Parent Company		(125)	(45)

Notes on pages 15 to 36 form an integral part of these financial statements

Balance Sheet

	Note	At 31 December	
		2017 €'000	2016 €'000
Assets			
Deposits with banks	10	7,409	6,113
Investment securities	11	6,521	16,069
Other assets		5	-
Total assets		13,935	22,182
Liabilities			
Liabilities evidenced by paper at amortised cost	13	6,520	16,067
Liabilities evidenced by paper designated at fair value	14	6,822	5,374
Derivative financial instruments	12	67	87
Other liabilities		23	26
Total liabilities		13,432	21,554
Equity			
Share capital	15	16	16
Reserves and retained earnings		487	612
Total equity		503	628
Total equity and liabilities		13,935	22,182

The financial statements on pages 11 to 36 were approved by the Board of Directors on 4 October 2018 and were signed on its behalf by:



Anastasios Ioannidis
Director

Notes on pages 15 to 36 form an integral part of these financial statements

Statement of Changes in Equity

	Share capital €'000	Reserves and retained earnings €'000	Total €'000
Balance at 1 January 2016	16	657	673
Loss for the year	-	(45)	(45)
Total Comprehensive Loss for the year ended 31 December 2016	-	(45)	(45)
Balance at 31 December 2016	16	612	628
Balance at 1 January 2017	16	612	628
Loss for the year	-	(125)	(125)
Total Comprehensive Loss for the year ended 31 December 2017	-	(125)	(125)
Balance at 31 December 2017	16	487	503

Notes on pages 15 to 36 form an integral part of these financial statements

Cash Flow Statement

	Year ended 31 December	
	2017	2016
Note	€'000	€'000
Cash flows from operating activities		
Interest and similar income received	865	1,921
Interest and similar income paid	(865)	(1,907)
Cash payments to suppliers	(68)	(68)
Cash flows from operating activities before changes in operating assets and liabilities	(68)	(54)
Changes in operating assets and liabilities		
Net decrease/(increase) in deposits with banks	(972)	(1,497)
Net cash generated from operating activities	(1,040)	(1,551)
Cash flow from investing activities		
Sales and redemptions of investment securities	9,543	33,911
Net cash generated from investing activities	9,543	33,911
Cash flows from financing activities		
Proceeds from issue of loan notes	1,300	1,500
Repayments of loan notes	(9,934)	(33,911)
Net cash used in financing activities	(8,634)	(32,411)
Net decrease in cash and cash equivalents	(131)	(51)
Cash and cash equivalents at beginning of year	651	702
Cash and cash equivalents at end of year	10 520	651

Notes on pages 15 to 36 form an integral part of these financial statements

Notes to the Financial Statements

1. General information

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

2. Accounting policies

2.1 Basis of preparation

The non statutory financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB, as 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.

The financial statements are prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) 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 and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. The Company's presentation currency is the Euro (€) being the functional currency of the Company. Except as indicated, financial information presented in Euros has been rounded to the nearest thousand.

Going concern considerations

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

Macroeconomic environment

In 2018, Greece's real GDP is expected to grow by 1.9%, according to the May 2018 forecast by European Commission (2017: 1.4%, according to the Hellenic Statistical Authority's (ELSTAT) data). The unemployment rate in June 2018 was at 19.1%, based on ELSTAT data (31 December 2017: 20.8%). On the fiscal front, Greece's primary surplus in 2017 was at 4.2% of GDP, according to Medium Term Fiscal Strategy 2019-2022, outperforming the respective 2017 Third Economic Adjustment Program (TEAP) target of 1.75% of GDP. The TEAP primary surplus target for the period 2018 - 2022 is expected at 3.5% of GDP each year.

The fourth and final review of the TEAP for Greece was concluded successfully in the 21 June 2018 Eurogroup, after the implementation of a series of prerequisite reforms. The Greek Government has built up a cash buffer of around € 24 bn so far, out of the European Stability Mechanism (ESM) loan disbursements, GGBs issuances and other sources, in order to facilitate the country's access to the international markets. This buffer suffices for covering the sovereign financial needs for around 22 months after the end of the program. Following the expiration of the TEAP on 20 August 2018, Greece has entered into enhanced post program surveillance under EU Regulation 472/2013, which foresees quarterly reviews by the competent committees of the institutions (EC/ECB/ESM/IMF).

Notes to the Financial Statements (continued)

The post program surveillance's main purpose is to safeguard financial stability, and continue the process of implementation of structural reforms aiming, among others, to boost domestic growth, jobs creation and to modernize the public sector. The decisive implementation of the reforms agreed in the context both of the TEAP and in the post program period surveillance, the implementation of medium term debt relief measures in accordance with 21 June 2018 Eurogroup decisions, the mobilization of European Union (EU) funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will improve the confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment.

The main risks and uncertainties stemming from the macroeconomic environment are associated with (a) the adherence to established reforms and the possible delays in the implementation of the reforms' agenda in order to meet the targets and milestones for the post program surveillance of the country, (b) the impact on the level of economic activity and on the attraction of direct investments from the fiscal and social security-related measures agreed under the reviews of the TEAP, (c) the ability to attract new investments in the country, (d) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (e) the possible slow pace of deposits inflows and/ or possible delays in the effective management of non-performing exposures (NPEs) as a result of the macroeconomic conditions in Greece and (f) the geopolitical conditions in the near or in broader region and the external shocks from a slowdown in the regional and/ or global economy. The Parent Company monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk.

Liquidity risk

The gradual stabilisation of the macroeconomic environment in Greece has enhanced Greece's credibility towards the international markets, improved the domestic economic sentiment and facilitated the return of deposits as well as the further relaxation of capital controls. The quick resolution of the uncertainty towards the post-program period will help further reinstating depositors' confidence, will accelerate the access to the markets for debt issuance and positively influence the financing of the economy.

As at 30 June 2018, the Bank's dependency on Eurosystem financing facilities decreased to € 5.1 bn (of which € 3.8 bn funding from ELA), mainly due to Parent Company's Group deposits inflows of € 2.5 bn (of which € 2.2 bn in Greece), assets deleveraging, increased market repos on Greek Government bonds and an asset backed securities issue, the senior notes of which were sold via a private placement to third parties (31 December 2017: € 10 bn, of which € 7.9 bn from ELA). On 31 July 2018, the Eurosystem funding further declined to € 3.7 bn, of which € 2.5 bn from ELA.

Solvency risk

On 5 May 2018, the ECB announced the results of the Stress Test (ST) for the four Greek systemic banks, including Eurobank. Based on feedback received by the Single Supervisory Mechanism (SSM), the ST outcome pointed to no capital shortfall and no capital plan needed for the Bank as a result of the exercise. Going forward, the prime target remains the active management of NPEs, with the aim to substantially reduce their stock in accordance with the Bank's operational targets and taking advantage of its internal infrastructure, the important legislative changes and the external partnerships that have taken or are expected to take place. As at 30 June 2018, the Bank has reduced its NPEs stock by € 0.8 bn since 31 December 2017 to € 17.3 bn, outperforming the respective target submitted to SSM by € 0.5 bn.

Notes to the Financial Statements (continued)

The Parent Company's group Common Equity Tier 1 (CET1) ratio stood at 14.8% at 30 June 2018, and the net profit attributable to shareholders amounted to € 36 million (€ 113 million net profit from continuing operations before restructuring costs) for the period ended 30 June 2018.

Going concern assessment

The Directors, taking into consideration the above factors relating to the adequacy of the capital position of the Parent Company as also evidenced by the performance to the ST, the outperformance of NPEs reduction targets and its anticipated continued access to Eurosystem funding over the foreseeable future, 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 2017 and 2016, 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 adopted by the Company

The following amendment to standards as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), which is relevant to the Company, apply from 1 January 2017:

IAS 7, Amendment-Disclosure Initiative

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 Company has implemented the disclosure requirement in notes 13 and 14.

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

A number of new standards and amendments to existing standards and interpretations are effective after 2017, as they have not yet been endorsed by the European Union or have not been early applied by the Company. Those that may be relevant to the Company are set out below:

IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments (effective 1 January 2018)

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

The adoption of the standard is not expected to impact the Company's financial statements as net interest income, which is the primary revenue stream of the Company, falls out of scope of IFRS 15.

IFRS 9, Financial Instruments (effective 1 January 2018)

In July 2014, the IASB published the final version of IFRS 9 'Financial Instruments' which replaces IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 includes revised requirements on the classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

Notes to the Financial Statements (continued)

Classification and measurement

IFRS 9 establishes a new classification and measurement approach for all types of financial assets that reflects the entity's business model for managing the assets and their contractual cash flow characteristics. IFRS 9 requires financial assets to be classified into one of the following measurement categories: amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available for sale.

Financial assets will be measured at amortized cost if they are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principle and interest (SPPI). Financial assets will be measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principle and interest. All other financial assets will be classified at FVTPL.

An entity may at initial recognition, designate a financial asset at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Furthermore, on initial recognition of an equity instrument that is not held for trading, an entity may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

Under IFRS 9, embedded derivatives in contracts where the host is a financial asset in the scope of the standard are no longer bifurcated. Instead, the hybrid financial instrument is assessed for classification as a whole.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at FVTPL, gains or losses attributable to changes in own credit risk shall be presented in OCI and shall not be subsequently transferred to profit or loss unless such a presentation would create or enlarge an accounting mismatch. Under IAS 39, all fair value changes of liabilities designated at FVTPL are recognized in profit or loss unless this would create or enlarge an accounting mismatch.

Business model assessment

The business model reflects how the entity manages the assets in order to generate cash flows. That is, whether the entity's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. Financial assets that are held for trading or that are managed on a fair value basis will be measured at FVTPL.

The Company's approach is to perform the business model assessment consistently with its operating model and the information provided to key management personnel.

SPPI assessment

In assessing whether the contractual cash flows are solely payments of principle and interest, the entity will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. This will include an assessment of whether a financial asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition.

Notes to the Financial Statements (continued)

Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset will be measured at FVTPL.

Assessment of changes to the classification and measurement on transition

For the purpose of the transition to IFRS 9, the Company is carrying out a business model assessment and a review of the contractual terms (SPPI review) for the financial assets held to determine any potential changes to the classification and measurement. The assessment is being performed based on the facts and circumstances that exist at the date of initial application on 1 January 2018, as follows:

- deposits with banks that are measured at amortized cost under IAS 39, are also expected to be measured at amortized cost under IFRS 9;
- deposits with banks (structured placements) that are measured at FVTPL under IAS 39, are also expected to be measured at FVTPL under IFRS 9;
- assets in the debt securities lending portfolio that are measured at amortized cost under IAS 39, are expected to be measured at amortized cost under IFRS 9;

Furthermore, the financial liabilities that are designated at FVTPL under IAS 39 (structured notes) are expected to be measured at amortized cost, while any embedded derivatives will be separated from the host contracts.

Impairment of financial assets

IFRS 9 introduces an expected credit loss (ECL) model that 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 and will apply to a broader population of financial instruments compared to IAS 39. The measurement of ECL will require the use of complex models and significant judgment about future economic conditions and credit behavior.

The new impairment model, which introduces a “three stage approach” that will reflect changes in credit quality since initial recognition, will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. Accordingly, no impairment loss will be recognized on equity investments. Upon initial recognition of instruments in scope of the new impairment principles, the Company will record a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk since initial recognition, a loss allowance equal to lifetime ECL will be recognized, arising from default events that are possible over the expected life of the instrument. Financial assets for which 12-month ECL are recognized will be considered to be in ‘stage1’; financial assets which are considered to have experienced a significant increase in credit risk will be allocated in ‘stage2’, while financial assets that are considered to be credit impaired will be in ‘stage3’. The loss allowance for purchased or originated credit impaired (POCI) financial assets will always be measured at an amount equal to lifetime ECL.

Allocation of Exposures to Stages

The Company will distinguish financial assets between those which are measured based on 12-month ECLs (stage 1) and those that carry lifetime ECLs (stage 2 and 3), depending on whether there has been a significant increase in credit risk as evidenced by the change in the risk of default occurring on these financial assets since initial recognition.

Notes to the Financial Statements (continued)

Purchased or originated credit impaired (POCI) financial assets, which include assets purchased at a deep discount and substantially modified assets arising from derecognition of the original asset and are considered originated credit impaired, are not subject to stage allocation and are always measured on the basis of lifetime ECL. The Company will recognize interest income of financial assets at stage 3 as well as POCI by applying the effective interest rate (EIR) or the credit-adjusted EIR respectively on their net carrying amount.

Financial assets that experience a significant increase in credit risk since initial recognition will be in stage 2. In assessing whether a financial asset has experienced a significant increase in credit risk since initial recognition, the Company intends to use a combination of quantitative, qualitative and backstop criteria including:

- relative changes on the residual lifetime probability of default;
- absolute thresholds on the residual lifetime probability of default;
- relative changes on credit risk ratings;

Management may apply temporary overlays on exposures to take into account specific situations which otherwise would not be fully reflected in the impairment models.

Measurement of expected credit losses

The measurement of ECLs will be a probability-weighted average estimate of credit losses that will reflect the time value of money. A credit loss is the difference between the cash flows that are due to the Company in accordance with the contractual terms of the instrument and the cash flows that the Company expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered. The new impairment model is expected to result in an increase in the total level of impairment allowances since all financial assets will be assessed for at least 12-month ECL.

ECL Key inputs

The ECL calculations are based on the term structures of the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The Company intends to derive these parameters from internally developed statistical models and observed point-in-time and historical market data.

The PD represents the likelihood of an issuer defaulting on its financial obligations either on the next twelve months or over the remaining lifetime. In accordance with IFRS 9, the Company will use point-in-time unbiased PDs that will incorporate forward looking information and macroeconomic scenarios.

EAD represents the exposure that the Company expects to be owed at the event of default. The EAD of a financial asset will be the gross carrying amount at default. In estimating the EAD, the Company will use historical observations and forward looking forecasts to reflect payments of principal and interest.

LGD represents the Company's expectation of the extent of loss on a defaulted exposure and is the difference between the contractual cash flows due and those that the Company expects to receive including any amounts from collateral liquidation. LGD may vary by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD.

Notes to the Financial Statements (continued)

Forward looking information

In assessing whether credit risk has increased significantly since initial recognition and measuring ECL the Company will incorporate forward looking information. The Company will evaluate a range of forward looking economic scenarios in order to achieve an unbiased and probability weighted estimate of ECL. In particular, the Company intends to use as a minimum three macroeconomic scenarios (i.e. base, adverse and optimistic) and consider the relative probabilities of each scenario. The base scenario will represent the most likely scenario and will be aligned with the information used by the Company for strategic planning and budgeting purposes.

Hedge accounting

IFRS 9 includes a new general hedge accounting model which aligns hedge accounting more closely with risk management. Under the new model, more hedging strategies may qualify for hedge accounting, new hedge effectiveness requirements apply and discontinuation of hedge accounting will be allowed only under specific circumstances. The IASB currently has a separate project for the accounting of macro hedging activities. Until the above project is completed, entities have an accounting policy choice to continue applying the hedge accounting requirements in IAS 39.

Transition

The Company has assessed the impact of the IFRS 9 requirements that will be applied retrospectively by adjusting the Company's balance sheet on the date of transition, on 1 January 2018. The Company intends to apply the exemption not to restate comparative figures for prior periods, therefore the Company's 2017 comparatives will be presented on an IAS 39 basis.

The IFRS 9 implementation program that is monitored centrally by the Parent Company has completed the IFRS 9 accounting policies, key processes and process flows and the ECL methodologies while further refinements will continue during 2018.

Impact assessment

The impact of the transition to IFRS 9 is estimated to be € 0,224 million at 1 January 2018 which will decrease shareholder's equity and is attributed to impairment for ECL of investment securities carried at amortized cost with total gross amount of € 6.521 million and allocated to stage 1.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective 1 January 2018)

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

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

Notes to the Financial Statements (continued)

2.2 Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all interest bearing instruments on an accruals basis, using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the 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.

2.3 Transactions in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognized in the profit or loss.

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

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

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

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

This category has two sub-categories: a) financial assets held for trading i.e. derivatives and b) those designated at fair value through profit or loss upon initial recognition.

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

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Company upon initial recognition designates as at fair value through profit or loss or as available-for-sale. Securities classified in this category are presented in Investment Securities under Debt Securities Lending portfolio.

Notes to the Financial Statements (continued)

(iii) Available-for-sale

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

Accounting treatment and calculation

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

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

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

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 derecognized) and the sum of (i) the consideration received, including any new asset obtained less any new liability assumed and (ii) any cumulative gain or loss that had been recognized in equity is recognized in profit or loss.

Dividends on equity instruments are recognised in the profit or loss when the Company's right to receive payment is established.

2.5 Fair value measurement of financial instruments

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

Notes to the Financial Statements (continued)

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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

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

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

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

2.6 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;

Notes to the Financial Statements (continued)

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

If there is objective evidence that an impairment loss on loans and receivables 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 or directly for other financial assets and the amount of the loss is recognised in the profit or loss.

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

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

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

Available-for-sale assets

The Company assesses at each reporting date whether there is objective evidence that an asset classified as available for sale is impaired. Particularly, in case of equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity investments are not reversed through the profit or loss.

Notes to the Financial Statements (continued)

2.7 Financial liabilities

The Company classifies its financial liabilities in the following categories: financial liabilities measured at amortized cost and financial liabilities at fair value through profit or loss. Financial liabilities at fair value through profit or loss have two sub categories: financial liabilities held for trading and 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.

De-recognition of financial liabilities

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

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

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

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

2.8 Cash and cash equivalents

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

2.9 Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivative financial instrument are recognized immediately in the profit or loss. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in notes 2.5 and 3.

Notes to the Financial Statements (continued)

2.10 Offsetting financial instruments

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

2.11 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 Parent Company, 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.

2.12 Provisions

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

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.13 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 recognized as a deduction in the Company's equity when approved by the Company's 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:

Notes to the Financial Statements (continued)

(a) Credit Risk: The Company takes on exposure to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when due. The cash proceeds generated from the EMTN program are placed on deposits with the Parent Company and investment securities issued by the Parent Company. The aggregate carrying amount of these deposits and investment securities approximates the maximum credit risk exposure of the Company. Financial assets are neither past due nor impaired.

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

- Interest rate risk: The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

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

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

(c) Liquidity Risk: The Company is not exposed to liquidity or cash flow risk because the maturity of its assets and liabilities, and the underlying cash flows, are substantially the same.

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

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

For notes of face value € 6,775 ths the put option was not exercised in March 2018 (put date). Therefore, the undiscounted cash flows are presented in the appropriate buckets, until their maturity in March 2019.

	2016				Gross nominal outflow €' 000
	Less than 1 month €' 000	1 - 3 months €' 000	3 months to 1 year €' 000	Over 1 year €' 000	
Financial liabilities:					
- Loan notes	-	16,686	4,714	1,637	23,037
Other liabilities	-	-	26	-	26
	-	16,686	4,740	1,637	23,063

Notes to the Financial Statements (continued)

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

Fair value of financial assets and liabilities

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

The Company's financial instruments carried at fair value or at amortized cost for which fair value is disclosed are categorized into the three levels of the 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 the Company can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. None of the Company's financial instruments are categorized into Level 1 of the fair value hierarchy.
- Level 2 - Financial instruments measured using valuation techniques with inputs other than level 1 quoted prices, that are observable either directly or indirectly, such as (i) quoted prices for identical financial instruments in markets that are not active, (ii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and (iii) other unobservable inputs which are insignificant to the entire fair value measurement. The Company's financial instruments are categorized into level 2 of fair value hierarchy.
- Level 3 - Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). None of the Company's financial instruments are categorized into Level 3 of the fair value hierarchy.

Notes to the Financial Statements (continued)**Financial instruments carried at fair value**

The fair value hierarchy categorization of the Company's financial assets and liabilities carried at fair value at 31 December 2017 and 2016 is presented in the following tables:

	2017			Total €' 000
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	
Financial assets measured at fair value:				
Deposits with banks	-	4,077	-	4,077
	-	4,077	-	4,077
Financial liabilities measured at fair value:				
Liabilities evidenced by paper designated at fair value	-	6,822	-	6,822
Derivative financial instruments	-	67	-	67
	-	6,889	-	6,889
	2016			Total €' 000
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	
Financial assets measured at fair value:				
Deposits with banks	-	3,960	-	3,960
	-	3,960	-	3,960
Financial liabilities measured at fair value:				
Liabilities evidenced by paper designated at fair value	-	5,374	-	5,374
Derivative financial instruments	-	87	-	87
	-	5,461	-	5,461

There were no transfers between Level 1 and 2 and vice versa, as well as, no changes in valuation techniques used, during the year ended 31 December 2017.

Company's valuation processes

The fair value of deposits with banks, interest rate swaps and loan notes that are carried at fair value through profit or loss is determined by using equity/index level implied volatilities and yield curves. The Company uses widely recognized valuation models for determining the fair value of financial instruments that are not quoted in an active market which use only observable market data and require little management estimation and judgment. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel of the Parent Company, independent of the personnel that created them. 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 reflect also the credit risk of the financial instrument and include adjustments to take into account the credit risk of the Parent Company, where appropriate. The credit risk of the Parent Company is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Parent Company's subsidiaries or other Greek issuers.

Notes to the Financial Statements (continued)

The valuation models used by the Company have been developed by the Parent Company's appropriate personnel, who also have established the processes and procedures governing the fair valuations. Valuation controls may include verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration, analysis of significant valuation movements, etc.

Financial instruments not carried at fair value

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

	2017				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value	Carrying amount
Financial assets not measured at fair value:					
Investment securities					
-Debt securities lending portfolio	-	7,148	-	7,148	6,521
	-	7,148	-	7,148	6,521
Financial liabilities not measured at fair value:					
Liabilities evidenced by paper at amortised cost	-	7,148	-	7,148	6,520
	-	7,148	-	7,148	6,520
	2016				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value	Carrying amount
Financial assets not measured at fair value:					
Investment securities					
-Debt securities lending portfolio	-	16,365	-	16,365	16,069
	-	16,365	-	16,365	16,069
Financial liabilities not measured at fair value:					
Liabilities evidenced by paper at amortised cost	-	16,365	-	16,365	16,067
	-	16,365	-	16,365	16,067

The assumptions and methodologies underlying the calculation of fair values of loan notes issued by the Company and the respective mirror assets (debt securities lending portfolio) not carried at fair value on the balance sheet date are as follows:

- The fair values are determined based on quotes for similar debt securities or by discounting the expected cash flows at a risk-adjusted rate, where the Parent Company's own credit risk is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Parent Company's subsidiaries or other Greek issuers.

4. Critical accounting estimates and judgments

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

Notes to the Financial Statements (continued)

4.1 Investment securities at amortised cost

The Company's proceeds from loan notes at amortised cost have been placed in investment securities issued by the Parent Company, which have been classified under debt securities lending portfolio. The Company assesses the recoverability of these assets on an ongoing basis in close association with the operations of the Parent Company and includes reviews of liquidity and solvency.

4.2 Fair value of financial instruments

The fair values of financial instruments that are not quoted in an active market are 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 judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models.

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

Valuation models are used to value deposits with banks, derivative instruments and loan notes issued by the Company measured at fair value.

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 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; and
- (c) judgment to determine what model to use in order to calculate fair value.

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

Valuation techniques used to calculate fair values are further discussed in note 3.

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

5. Interest and similar income

	2017 €' 000	2016 €' 000
Interest income on investment securities	810	2,286
Interest income on derivative financial instruments	0	0
Interest income on deposits with the Parent Company	45	2
	<u>855</u>	<u>2,288</u>

Notes to the Financial Statements (continued)**6. Interest expense and similar charges**

	2017	2016
	€' 000	€' 000
Interest expense on liabilities evidenced by paper	(811)	(2,289)
Interest expense on derivative financial instruments	(45)	(2)
	<u>(856)</u>	<u>(2,291)</u>

7. Net gains/ (losses) from other financial instruments

	2017	2016
	€' 000	€' 000
Changes in fair value of liabilities evidenced by paper	(574)	(136)
Changes in fair value of derivative financial instruments managed with liabilities evidenced by paper	31	(86)
Changes in fair value of deposits managed with liabilities evidenced by paper	543	222
	<u>0</u>	<u>(0)</u>

8. Operating expenses

	2017	2016
	€' 000	€' 000
Fees payable to the auditor for the non statutory audit of the company's annual financial statements	(21)	(25)
EMTN update and other costs	(39)	(34)
	<u>(60)</u>	<u>(59)</u>

9. Income tax expense

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

10. Deposits with banks

	2017	2016
	€' 000	€' 000
Deposits with the Parent Company designated at fair value	4,077	3,960
Deposits with the Parent Company at a mortised cost	3,332	2,153
	<u>7,409</u>	<u>6,113</u>
Maturing over 1 year	2,800	5,039
	<u>520</u>	<u>651</u>
With original maturity of less than 90 days (cash and cash equivalents)	520	651

Notes to the Financial Statements (continued)**11. Investment securities**

	2017	2016
	€' 000	€' 000
Debt securities lending portfolio	6,521	16,069
Maturing over 1 year	6,521	16,069

As at 31 December 2017, the Company held unlisted notes issued by the Parent Company of face amount of € 6.8 million (2016: € 16 million). The notes were classified under debt securities lending portfolio.

During 2017 the face value of debt securities lending portfolio held by the Company was decreased by € 9,543 ths, following the decrease of loan notes carried at amortised cost, recorded in the same period (note 13).

12. Derivative financial instruments

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates (for example, fixed rate for floating rate). No exchange of principal takes place. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligations. The Company utilizes interest rate swaps in order to exchange structured notes' cash flows for interest payments derived from deposits with the Parent Company, as set out in note 3. The fair values of derivative financial instruments held are set out in the following table:

	2017			2016		
	Contract/ notional amount €'000	Fair values		Contract/ notional amount €'000	Fair values	
		Assets €'000	Liabilities €'000		Assets €'000	Liabilities €'000
Derivatives held for trading						
-Interest rate swaps	2,800	-	67	1,500	-	87
	2,800	-	67	1,500	-	87

13. Liabilities evidenced by paper at amortised cost

	Interest rate %	Currency	2017		2016	
			Face amount €' 000	Carrying amount €' 000	Face amount €' 000	Carrying amount €' 000
			Fixed rate loan notes	9.0	EUR	6,775
			6,775	6,520	16,318	16,067

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

During the year the Company proceeded with the partial redemption of loan notes of face value € 9,543 ths.

Notes to the Financial Statements (continued)**14. Liabilities evidenced by paper designated at fair value**

	<u>2017</u>	<u>2016</u>
	<u>€' 000</u>	<u>€' 000</u>
Loan notes	<u>6,822</u>	<u>5,374</u>
	<u>6,822</u>	<u>5,374</u>

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

Certain loan notes issued by the Company have been designated upon their initial recognition as at fair value through profit or loss, because their performance is largely determined by reference to baskets of equity shares and they share the same risks with linked deposits and derivatives and those risks are managed and evaluated on a fair value basis (note 3).

As part of the Company's risk management strategy, these notes are managed by placing funds on deposits with the Parent Company on the same terms and conditions with the loan notes or by entering into interest rate swap transactions with the Parent Company (note 3).

The loan notes mature in 2018, 2021 and 2022. The Company has not had any defaults on principal, interest or any other breaches with respect to its liabilities during 2017 and 2016.

As at 31 December 2017, the loan notes designated at fair value had a face value of € 7,050 ths and a negative cumulative fair value change of € 228 ths (2016: € 6,177 ths and € 802 ths, respectively).

During the year the Company proceeded with the issue of loan notes of face value of € 1,300 ths, while a loan note of face value of € 427 ths matured.

15. Share capital

	<u>2017</u>	<u>2017</u>	<u>2016</u>	<u>2016</u>
	<u>Number</u>	<u>US\$'000</u>	<u>Number</u>	<u>US\$'000</u>
Authorised ordinary shares of US\$ 1 each	50,000	50	50,000	50
Authorised preference shares of US\$ 100,000 each	1,500	150,000	1,500	150,000
Issued ordinary shares of US\$ 1 each	50,000	50	50,000	50
Allotted and paid up 49,999 ordinary shares at US\$ 0.30 per ordinary share and 1 ordinary share at US\$ 1	<u>50,000</u>	<u>15</u>	<u>50,000</u>	<u>15</u>

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

In July 2017, the Parent Company acquired from its subsidiary ERB New Europe Funding III Ltd 100% of the shares and voting rights of the Company.

Notes to the Financial Statements (continued)

16. Related party transactions

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

As of November 2015, the percentage of the Bank's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) stands at 2.38%. The HFSF is considered to have significant influence over the Parent Company pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) the Bank has entered into with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014.

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

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

	31 December 2017		31 December 2016	
	Parent Company €' 000	Parent Company's subsidiaries €' 000	Parent Company €' 000	Parent Company's subsidiaries €' 000
Deposits with banks	7,409	-	6,113	-
Investment securities	6,521	-	16,069	-
Liabilities evidenced by paper at amortised cost	116	-	1,696	-
Liabilities evidenced by paper designated at fair value	1,535	-	947	-
Derivative financial instruments (liabilities)	67	-	87	-
Interest and similar income	855	-	2,288	-
Interest expense and similar charges	(49)	-	(75)	-

Emoluments of directors

The directors provide services to a number of Group companies for which are compensated by the Parent Company. Accordingly, these financial statements include no emoluments in respect of any director as it is not practicable to apportion the salary element. The Company employed no staff during 2017 and 2016.

17. Segmental reporting

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

18. Post balance sheet events

a) The Parent Company, along with the other three Greek systemic banks directly supervised by the ECB, underwent the 2018 EU-wide ST launched by the European Banking Authority (EBA) on 31 January 2018.

On 5 May 2018, the ECB announced the results of the ST for the four Greek systemic banks, including Eurobank. Based on feedback received by the Single Supervisory Mechanism (SSM), the ST outcome along with other factors that have been assessed by the Supervisory Board (SB) of the SSM, pointed to no capital shortfall and no capital plan needed for the Bank as a result of the exercise.

b) In July 2018 the Company proceeded with the issue of an EMTN note of face value € 1,500 ths.