

ERB Hellas Funding Limited

Annual Report

For the year ended 31 December 2017

Company's registration number: 89637

| | |
|--|-----------|
| Index to the Annual report | |
| Declaration of the Directors responsible for financial reporting..... | 3 |
| Directors' Report | 4 |
| Independent Auditor's report to the members of ERB Hellas Funding Limited | 9 |
| Statement of Comprehensive Income | 15 |
| Balance Sheet | 16 |
| Statement of Changes in Equity..... | 17 |
| Cash Flow Statement | 18 |
| Notes to the Financial Statements..... | 19 |

Declaration of the Directors responsible for financial reporting

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



Stephen Langan

Director

27 April 2018

Directors' Report

The directors submit their report and the audited financial statements of ERB Hellas Funding Limited ("the Company") for the year ended 31 December 2017.

a. Business review and principal activities

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

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

The loss for the year amounted to €47 thousand (ths) (2016: loss €66 ths). No dividend was paid to shareholders during 2017 (2016: nil).

b. 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 current economic adjustment program, have 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.

Greece, following the conclusion of the second review of the Third Economic Adjustment Program (TEAP) in June 2017 and the consequent release of the €8.5bn loan tranche, reached a staff level agreement with the European institutions on the policy package of the third review on 4 December 2017. On 22 January 2018, the Eurogroup welcomed the implementation of almost all of the agreed prior actions for the third review of the TEAP. The positive report by the Euro Working Group on 2 March 2018 on the full implementation of the outstanding prior actions, paved the way for the disbursement of the first sub-tranche of €5.7bn in the second half of March 2018 for debt servicing needs, further arrears clearance and support the build-up of a state cash buffer. The second sub-tranche of €1.0bn will be used for arrears clearance and will be disbursed in the second quarter of 2018, subject to positive reporting by the European institutions on the clearance of net arrears using also own resources and a confirmation from the European institutions that the unimpeded flow of e-auctions has continued. Currently, the relation between Greece and the European Institutions in the post program period, as well as the parameters of the sovereign debt relief proposal and the establishment of a framework that secures the continuation of reforms in the Greek economy, are under discussion. The Greek government aims to continue its market access program in the post program period. Conditional on the continuation of the TEAP funding until the end of the program in August 2018, the Greek government aims to create a cash buffer of above €10.2bn that would facilitate the country's market access after the end of the program.

On 19 January 2018, Standard & Poor's upgraded the Greek sovereign rating from B- to B with a positive credit outlook on the basis of the improved fiscal and growth outlook as well as the labour market recovery and amid a period of relative political certainty. Fitch on 16 February 2018 upgraded the Greek sovereign rating from B- to B with a positive credit outlook on the basis of improved fiscal conditions, on expectations of a prompt conclusion of the TEAP as well as on the expectation of an agreement on further debt relief measures by the end of the program.

Directors' Report (continued)

Furthermore, Moody's on 21 February 2018 upgraded the Greek sovereign rating from Caa3 to B3 based on similar arguments. 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 by ca 33% between the end of November 2017 and 21 February 2018.

In 2017, according to the Hellenic Statistical Authority (ELSTAT) data, Greece's real GDP growth rate turned positive at 1.4% for the first time since 2014 where positive growth of 0.4% of GDP was realized (2016: -0.02%). According to the EC 2018 Winter forecast for 2018, real GDP growth is expected at 2.5%, 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.

On the fiscal front, according to the 2018 Budget, the 2016 primary surplus was at 3.8% of GDP against a TEAP target of 0.5% of GDP. ELSTAT in its recent 1st 2018 Fiscal Data Notification announced that the 2017 primary surplus in European System of National and Regional Accounts (ESA 2010) terms was at 4.0% of GDP which points towards a 2017 primary surplus of 4.2% of GDP in TEAP terms, significantly higher compared to the respective 2017 TEAP target of 1.75% of GDP. The TEAP primary balance target for 2018 is at 3.50% of GDP. 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 and long term measures enhancing the sustainability of public debt, as decided on the Eurogroup of 24 May 2016.

The current account, according to the IMF is expected at -0.8% of GDP for both 2017 and 2018 from -1.1% of GDP in 2016. It continued on an improving pattern compared to its 2008 respective performance (deficit of 15.1% of GDP) due to tourism revenues, the decline of imports and the positive effect of the PSI (2012) debt relief measures on the income account.

Based on ELSTAT data, the unemployment rate in January 2018 was at 20.6% (January 2017: 23.2%) and had decreased by approximately 7.3 percentage points (ppts) since the peak of July 2013 (27.9%), pointing towards a slow path of decline, conditional on no unforeseen negative developments in the upcoming period. According to the most recent data, the general price level (the harmonized index of consumer prices "HICP") recorded an increase of ca 0.2% in March 2018 from +1.7% in March 2017.

The ongoing deleveraging in the Greek economy can be considered as a major drag for recovery. According to the latest available data from BoG, i.e. in February 2018, the private sector domestic credit balance stood at €182.1bn from €193.6bn in February 2017, a decrease of -5.9%. On the other side of the ledger, private sector domestic deposits amounted to €124.9bn in February 2018 from €119.1bn in February 2017, registering an increase of 4.9%. The recovery of deposits is closely related with the timely and successful conclusion of the fourth, which is the final, review of the TEAP and the return of the country to a sustainable growth path.

Regarding the outlook for the next 12 months, the main risks and uncertainties for the Parent Company's group stem from the current macroeconomic environment in Greece. In particular, risks include (a) the possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, (b) the possible delays in the agreement of the post-programme relation between Greece and the Institutions, (c) 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, d) the ability to attract new investments in the country, (e) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity and (f) the possible slow

Directors' Report (continued)

pace of deposits inflows and/or possible delays in the effective management of NPEs as a result of the challenging macroeconomic conditions in Greece. 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 of increased dependence on Eurosystem funding, particularly on the expensive Emergency Liquidity Assistance (ELA) mechanism, and further pressures on the revenue side from increased funding cost and lower interest and commission income.

On the other hand, the successful completion of the fourth and final review of the TEAP and an agreement on the post-program relation of Greece with the Institutions will help reinstating depositors' confidence and thus accelerate the return of deposits and it will facilitate the faster relaxation of capital controls and it will positively influence the financing of the economy. The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 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 facilitate the restoration of 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.

On 18 January 2018, the Parent Company announced the completion of the full redemption of its preference shares without voting rights held by the Hellenic Republic of total nominal value €950,125,000. Following the redemption of the preference shares and in accordance with the terms and conditions of the preferred securities issued by ERB Hellas Funding Limited, the Company declared and paid the non-cumulative dividends of € 0.7 million in total on the Series D, B, A and C that were payable on 29 January, 2 February, 18 March and 9 April 2018, respectively. Accordingly, the Parent Company proceeded with the payment of coupons of the mirror securities issued, held by the Company (note 18).

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 set out in note 2 of the Financial Statements, the directors have been satisfied that the Company has the ability to continue as a going concern into the foreseeable future and that it is appropriate to prepare the financial statements of the Company on a going concern basis.

c. Principal risks and uncertainties

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

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

The principal risks and uncertainties of the Parent Company for 2017, which include those of the Company, are discussed in the Report of Directors and the notes to the consolidated financial statements included in the 2017 Annual Financial Report of Eurobank Ergasias S.A., which was signed on 28 March 2018 (available at website: www.eurobank.gr).

Directors' Report (continued)

d. Creditor payment policy

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

e. Directors

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

Stephen Langan

Cheryl Anne Heslop (appointed 29/06/2017)

Peter Gatehouse (resigned 29/06/2017)

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

f. Parent Company

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

g. Statement of Directors' responsibilities

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

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

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

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

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

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

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

Directors' Report (continued)

h. Statement of disclosure of information to auditors

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

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

i. Independent Auditors

PricewaterhouseCoopers CI LLP have been the auditors in the current year.

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 Funding will also appoint KPMG as statutory auditor for 2018 and PricewaterhouseCoopers CI LLP will resign from office.

j. Secretary

The secretary of the Company who held office for the year ended 31 December 2017 and up to the date of signature of the report and financial statements was Intertrust SPV Services Limited.

The Directors' Report was approved by the Board of Directors on 27 April 2018 and was signed on its behalf by:



Company Secretary – Intertrust SPV Services Limited

27 April 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of ERB Hellas Funding Limited (the "Company" or "ERB") as at 31 December 2017, and of 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 and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991.

What we have audited

The Company's financial statements comprise:

- the company balance sheet as at 31 December 2017;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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

Independence

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 IESBA Code.

Our audit approach

Overview



Materiality

- Overall materiality was EUR 333,700 which represents 1% of the Company's total assets

Audit scope

- We performed our audit of the Company, as a stand-alone Jersey entity, in the Channel Islands.

Key audit matters

Assessment of:

- Carrying value of held to maturity investment securities
- Valuation of financial assets designated at fair value through profit or loss

Audit scope

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED (CONTINUED)

including, among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company and the Eurobank Group, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|--|---|
| <i>Overall Company materiality</i> | EUR 333,700 (2016: EUR 283,500) |
| <i>How we determined it</i> | 1% of total assets |
| <i>Rationale for the materiality benchmark</i> | We consider total assets to be the most appropriate benchmark for a capital funding structured finance vehicle. |

We agreed with the those charged with governance that we would report to them misstatements identified during our audit above EUR 16,685, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED (CONTINUED)

Key audit matter

Carrying value of held to maturity investment securities

The Company issued non-convertible preferred securities (preferred securities at amortised cost), and utilised the proceeds to purchase bonds (assets classified as held to maturity investment securities) ("HTM investment securities"). Refer to pages 35 and 36 (Notes 3 and 4.1 to the Financial Statements) and page 39 (Note 12 to the Financial Statements).

Significant judgement is required over the recoverability of the HTM investment securities issued by Eurobank Ergasias S.A ("Eurobank") which is related to the macroeconomic environment in Greece and the corresponding financial performance of Eurobank.

The impairment assessment of the HTM investment securities is one of the key judgemental areas that our audit concentrated on due to the inherent uncertainty in estimating the present value of expected future cashflows.

In particular, judgement arises over the estimation of future cashflows of capital and interest and the discount rate for the calculation of the present value of future cashflows at the reporting date.

The determination of the carrying amount of the HTM investment securities is subject to impairment assessments which involve complex and subjective judgements about future events, both internal and external to the business, for which small changes in assumptions may result in a material impact on the impairment.

How our audit addressed the Key audit matter

The HTM investment securities held and the non-convertible preferred securities issued have the same face value and principal terms. In addition, the interest generated from the HTM investment securities is used to pay the non-convertible preferred security holders on a limited recourse basis. Consequently the carrying values for the two financial instruments are expected to be approximately equal and opposite.

We have performed the following procedures over the carrying value of the non-convertible preferred securities and considered the appropriateness of using the same value for the HTM investment securities:

- We held discussions with management to understand management's controls and the procedures in place to assess the recoverability of the HTM investment securities.
- We obtained and reviewed the audited financial statements of Eurobank to ascertain its financial condition as the guarantor and issuer of the bonds.
- We reviewed and challenged management's impairment assessment including any indicators of impairment, assumptions and inputs used.
- We corroborated management's comments and calculations including agreeing the inputs used to Bloomberg, an independent financial source.
- We obtained a confirmation from Eurobank to support the year end balances.

Based on the above procedures, we found the carrying values adopted by the Company and the disclosures to be appropriate and the assumptions used to be supportable and within a reasonable range.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED (CONTINUED)

Key audit matter

Valuation of financial assets designated at fair value through profit or loss

The Company issued convertible preferred securities (preferred securities designated at fair value through profit or loss) and utilised the proceeds to purchase bonds (financial assets designated at fair value through profit or loss) ("financial assets at FVTPL"). Refer to pages 33 and 34 (Note 3 to the Financial Statements), page 36 (Note 4.2 to the Financial Statements) and page 38 (Note 11 to the Financial Statements).

The financial assets at FVTPL held and the convertible preferred securities issued have the same face value and principal terms. In addition, the interest generated from the financial assets at FVTPL is used to pay the convertible preferred security holders on a limited recourse basis. Consequently the fair values for the two financial instruments are expected to be approximately equal and opposite.

The determination of the fair values of the convertible preferred securities issued and the corresponding financial assets at FVTPL is judgemental and there may be a requirement for adjustments to the fair values from the quoted prices for the convertible preferred securities derived from Bloomberg.

How our audit addressed the Key audit matter

We have performed the following procedures over the valuation of the convertible preferred securities and considered the appropriateness of using the same value for the financial assets at FVTPL:

- We updated and reconfirmed our understanding and evaluation of management's controls and procedures in place to assess the fair value of investments.
- We engaged the services of internal valuation experts to assist us in assessing the reasonableness of the fair value of the convertible preferred securities and the financial assets at FVTPL.
- We obtained the report from our valuation experts, and discussed the assumptions and findings of the valuation experts.
- We obtained a separate confirmation from Eurobank to support the year end balances.

Based on the above procedures, we found the fair values adopted by the Company and the disclosures to be appropriate and the assumptions used to be supportable and within a reasonable range.

Other information

The directors are responsible for the other information. The other information comprises the Declaration of the Directors responsible for financial reporting and the Directors' report (but does not include the financial statements and our auditor's report thereon).

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

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

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, the requirements of Jersey law 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 relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED (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 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 judgement 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 the directors.
- Conclude on the appropriateness of the director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ERB HELLAS FUNDING LIMITED (CONTINUED)

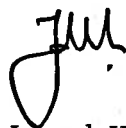
Report on other legal and regulatory requirements

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

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



James de Veulle

For and on behalf of PricewaterhouseCoopers CI LLP

Chartered Accountants and Recognized Auditor

Jersey, Channel Islands

27 April 2018

- a. The maintenance and integrity of the ERB Hellas Funding Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- b. Legislation in Jersey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of Comprehensive Income

| | Note | Year ended 31 December | |
|---|------|------------------------|---------------|
| | | 2017 €'000 | 2016 €'000 |
| Interest and similar income | 5 | 1,482 | 1,609 |
| Interest expense and similar charges | 6 | (1,480) | (1,607) |
| Net interest income | | 2 | 2 |
| Net gains/(losses) from financial instruments designated at fair value | 7 | 0 | 0 |
| Operating expenses | 8 | (49) | (68) |
| Loss before income tax | | (47) | (66) |
| Income tax expense | 9 | - | - |
| Net loss for the year | | (47) | (66) |
| Other comprehensive income | | - | - |
| Total comprehensive loss for the year | | (47) | (66) |

The notes on pages 19 to 43 form an integral part of these financial statements.

Balance Sheet

| | Note | At 31 December | |
|--|------|----------------|---------------|
| | | 2017 €'000 | 2016 €'000 |
| Assets | | | |
| Deposits with banks | 10 | 111 | 167 |
| Financial assets designated at fair value through profit or loss | 11 | 9,226 | 5,351 |
| Held-to-maturity investment securities | 12 | 24,036 | 22,833 |
| Total assets | | 33,373 | 28,351 |
| Liabilities | | | |
| Preferred securities designated at fair value through profit or loss | 13 | 9,226 | 5,351 |
| Preferred securities at amortised cost | 14 | 24,035 | 22,835 |
| Other liabilities | | 26 | 32 |
| Total liabilities | | 33,287 | 28,218 |
| Equity | | | |
| Share capital | 15 | 310 | 310 |
| Accumulated losses | | (224) | (177) |
| Total equity | | 86 | 133 |
| Total equity and liabilities | | 33,373 | 28,351 |

The financial statements on pages 15 to 43 were approved and authorized for issue by the Board of Directors on 27 April 2018 and signed on their behalf by:

Stephen Langan



Director

The notes on pages 19 to 43 form an integral part of these financial statements.

Statement of Changes in Equity

| | Share capital €'000 | Accumulated losses €'000 | Total €'000 |
|------------------------------------|------------------------------------|---|------------------------|
| Balance at 1 January 2016 | 110 | (111) | (1) |
| Loss for the year | - | <u>(66)</u> | <u>(66)</u> |
| Total comprehensive loss | - | (66) | (66) |
| Share capital increase | <u>200</u> | - | <u>200</u> |
| Balance at 31 December 2016 | <u>310</u> | <u>(177)</u> | <u>133</u> |
| Balance at 1 January 2017 | 310 | (177) | 133 |
| Loss for the year | - | <u>(47)</u> | <u>(47)</u> |
| Total comprehensive loss | - | (47) | (47) |
| Balance at 31 December 2017 | <u>310</u> | <u>(224)</u> | <u>86</u> |

The notes on pages 19 to 43 form an integral part of these financial statements.

Cash Flow Statement

| | Note | Year ended 31 December | |
|---|-------------|-------------------------------|--------------|
| | | 2017 | 2016 |
| | | €'000 | €'000 |
| Cash flows from operating activities | | | |
| Cash payments to service providers | | (56) | (66) |
| Net cash flows used in operating activities | | (56) | (66) |
| Cash flows from financing activities | | | |
| Proceeds from share capital increase | | - | 200 |
| Net cash flows from financing activities | | - | 200 |
| Net increase/(decrease) in cash and cash equivalents | | (56) | 134 |
| Cash and cash equivalents at beginning of year | | 167 | 33 |
| Cash and cash equivalents at end of year | 10 | 111 | 167 |

The notes on pages 19 to 43 form an integral part of these financial statements.

Notes to the Financial Statements

1. General information

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

2. Accounting policies

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”), as adopted by the European Union (“EU”) and in particular with those IFRS and IFRS Interpretation Committee’s (IC) interpretations issued and effective as at the time of preparing these statements, and in accordance with the Companies (Jersey) Law 1991.

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

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

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

Macroeconomic environment

Greece’s real GDP grew by 1.4% in 2017, according to the Hellenic Statistical Authority’s (ELSTAT) first estimate from -0.02% in 2016, while the real GDP growth consensus forecast for 2018 is at 2.1% (compared to an official target of 2.5%). The unemployment rate in December 2017 was 20.8%, based on ELSTAT data (31 December 2016: 23.5%). ELSTAT in its recent 1st 2018 Fiscal Data Notification announced that the 2017 primary surplus in ESA2010 terms was at 4.0% of GDP which points towards a 2017 primary surplus of 4.2% of GDP in TEAP terms, significantly higher compared to the respective 2017 TEAP target of 1.75% of GDP. According to Bank of Greece and ELSTAT data the current account deficit decreased at -0.8% of GDP in 2017 (2016: -1.1 %).

Greece, following the conclusion of the TEAP second review in June 2017 and the consequent release of the € 8.5 bn loan tranche, reached a staff level agreement with the European institutions on the policy package of the third review on 4 December 2017 and implemented all prior actions by early 2018, which paved the way for the disbursement of the first sub-tranche of € 5.7 bn in the second half of March 2018.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued)

The second sub-tranche of € 1 bn will be disbursed in the second quarter of 2018 subject to positive reporting by the European institutions on the clearance of net arrears and the unimpeded flow of e-auctions.

On the back of the aforementioned positive developments, Greece returned to the financial markets through the issue of a € 3 bn five-year bond at a yield of 4.625% on 24 July 2017 (for the first time since July 2014) and a € 3 bn seven-year bond at a yield of 3.5% on 8 February 2018. The proceeds of the bond issues are used for further liability/debt management and for the build-up of a state cash buffer that would facilitate the country's market access after the end of the program in August 2018.

The completion of the fourth and final review of the TEAP, which will be carried out by June 2018 according to the implementation plan, an expected significant rise in investments (2018 Budget estimate at 11.4% compared to 9.6% increase in 2017), and a forecasted strong tourism season support expectations for a further improvement in domestic economic activity in 2018. The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 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 facilitate the restoration of 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 main risks and uncertainties are associated with (a) the possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, (b) the possible delays in the agreement of the post-program relation between Greece and the Institutions, (c) 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, (d) the ability to attract new investments in the country, (e) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity and (f) 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 challenging macroeconomic conditions in Greece.

Liquidity risk

In accordance with the agreement with the European partners the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the European Stability Mechanism (ESM) program. The gradual stabilisation of the macroeconomic environment, following the completion of the second and the third review of the TEAP, 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 successful completion of the fourth review of the TEAP and an agreement on the post-program relation of Greece with its official creditors will help further reinstating depositors' confidence and thus accelerate the return of deposits, and it will positively influence the financing of the economy.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

Going concern considerations (continued)

In 2017, the Parent Company's group deposits inflows of € 1.8 bn (of which € 1.2 bn in Greece), along with the increased market repos on covered bonds and Greek Treasury bills, a € 500 million covered bond issue to international and domestic investors and the assets deleveraging resulted in the significant decrease of the Bank's dependency from the Eurosystem to € 10 bn at the end of December 2017, of which € 7.9 bn funding from ELA, (31 December 2016: € 13.9 bn, of which € 11.9 bn from ELA) and the elimination of the Bank's participation in the second stream of the Hellenic Republic liquidity support program at the end of October 2017 (31 December 2016: bonds guaranteed by the Greek Government of € 2.5 bn).

Solvency risk

The Parent company's group monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk. A key priority is 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 the Parent Company's group internal infrastructure, the important legislative changes and the external partnerships that have taken or are expected to take place. As at 31 December 2017, the Bank has reduced its NPEs stock by € 2.4 bn to € 18.1 bn, outperforming the respective initial SSM target of € 18.8 bn.

In parallel, the Parent company's group recorded a net profit attributable to shareholders of € 104 million for 2017 (€ 186 million, net profit from continuing operations before restructuring costs) on the back of higher net interest and commission income from both Greek and international activities. In the context of its strategic plan, the Bank has undertaken significant initiatives towards the fulfillment of the remaining commitments of the restructuring plan and it proceeded with the redemption of the preference shares by issuing Tier 2 bonds at early 2018, which count in its total capital adequacy ratio. The Parent company's group Common Equity Tier 1 (CET1) ratio stood at 17.9% at 31 December 2017, while the respective pro-forma ratio with the redemption of preference shares/issue of Tier 2 bonds and the completion of the sale transaction in Romania would be 15.8%. The impact of the adoption of IFRS 9 on Parent Company's group CET1 as at the end of 2018, according to the transitional arrangements for the 5-year phase in period, is estimated to be approximately 20 bps.

The Parent Company's group, along with the other three Greek systemic banks directly supervised by the European Central Bank (ECB), undergoes the 2018 EU-wide stress test launched by the European Banking Authority (EBA) on 31 January 2018. The results for the Greek systemic banks are expected to be published in May 2018.

Within an environment of positive growth, the Parent Company's group is well on track to achieve the 2018 NPE reduction targets, maintain profitability, continue the creation of organic capital and strengthen its position in the Greek market and abroad.

Going concern assessment

The Board of Directors, taking into consideration the above factors relating to the adequacy of the Parent Company's group capital position, the outperformance of NPEs reduction targets and its anticipated continued access to Eurosystem funding over the foreseeable future, has been satisfied that the financial statements of the Company can be prepared on a going concern basis.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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 amendments to standards as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), which are relevant to the Company, apply from 1 January 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, 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 recognise, 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 outside the scope of IFRS 15.

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 recognised 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. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

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.

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 recognised 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.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

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. 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 for the portfolios held and a review of the contractual terms (SPPI review) for its debt instruments portfolios 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;
- held-to-maturity investment securities that are measured at amortized cost under IAS 39, are expected to be measured at amortized cost under IFRS 9;
- debt instruments that are designated and measured at FVTPL under IAS 39 are expected to be measured at FVTPL under IFRS 9; and
- financial liabilities that are designated at FVTPL under IAS 39 (preferred securities) will continue to be designated and measured at FVTPL under IFRS 9 as they are expected to eliminate or significantly reduce a measurement inconsistency (accounting mismatch) that would otherwise arise from measuring these liabilities on a different base from the associated assets. The effects of changes in the credit risk of financial liabilities designated at FVTPL will continue to be presented in profit or loss as in case of presenting in other comprehensive income would result in a greater mismatch in profit or loss.

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 recognised 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.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

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 recognised 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 recognised, arising from default events that are possible over the expected life of the instrument. Financial assets for which 12-month ECL are recognised 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.

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 recognise 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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

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.

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.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.1 Basis of preparation (continued)

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

Transition

The Company is currently assessing 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 is monitored centrally by the Parent Company which has largely 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 € 0,822 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 € 24.036 million and allocated to stage 1.

Taking into consideration the IFRS 9 impact, the Parent Company intends to continue to provide sufficient support to the Company.

2.2 Interest income and expense

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

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

2.3 Transactions in Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the statement of comprehensive income.

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.4 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 held to maturity investment securities.

Management determines the classification of its financial instruments at initial recognition.

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

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

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

(ii) Loans and receivables

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

(iii) Held-to-maturity

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

Accounting treatment and calculation

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

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

The Company derecognises a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all the risks and rewards of ownership have been transferred. In addition, a financial asset is derecognised 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.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.4 Financial assets (continued)

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 derecognised) and the consideration received, including any new asset obtained less any new liability assumed is recognised in profit or loss.

2.5 Fair value measurement of financial instruments

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.6 Impairment of financial assets (continued)

impairment as a result of one or more events that occurred after the initial recognition of the financial asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of financial assets is impaired refers to observable data that comes to the attention of the Company about the following loss events:

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

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

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 SOCl.

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.6 Impairment of financial assets (continued)

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

2.7 Financial liabilities

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

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

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

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

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.

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

2.8 Cash and cash equivalents

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

Notes to the Financial Statements (continued)

2. Accounting policies (continued)

2.9 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.

2.10 Related party transactions

Related parties of the Company include:

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

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

2.11 Provisions

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

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

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.

2.12 Share capital

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

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

3. Principal risks and uncertainties

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

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

Notes to the Financial Statements (continued)

3. Principal risks and uncertainties (continued)

Parent Company. The credit rating of the Parent Company as at 31 December 2017 according to Moody's was Caa3.

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

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

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

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

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

Fair value of financial assets and liabilities

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

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

- Level 1 - Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. None of the Company's financial instruments are categorised into Level 1 of the fair value hierarchy.
- Level 2 – Financial instruments measured using valuation techniques with inputs, other than level 1 quoted prices, that are observable either directly or indirectly, such as : (i) quoted prices for identical financial instruments in markets that are not active, or (ii) inputs other than quoted prices that are directly

Notes to the Financial Statements (continued)

3. Principal risks and uncertainties (continued)

or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, credit spreads and implied volatilities obtained from internationally recognised market data providers and (iii) other unobservable inputs which are insignificant to the entire fair value measurement. The Company's financial instruments in their entirety are categorised 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 categorised into Level 3 of the fair value hierarchy.

Financial instruments carried at fair value

The fair value of financial assets and preferred securities designated at fair value through profit or loss (series D) is determined by the market and in particular with prices obtained from Bloomberg.

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

| | 2017 | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 €' 000 | Level 2 €' 000 | Level 3 €' 000 | Total €' 000 |
| Financial assets designated at fair value | - | 9,226 | - | 9,226 |
| | - | 9,226 | - | 9,226 |
| Preferred securities designated at fair value | - | 9,226 | - | 9,226 |
| | - | 9,226 | - | 9,226 |

| | 2016 | | | |
|---|-------------------|-------------------|-------------------|-----------------|
| | Level 1 €' 000 | Level 2 €' 000 | Level 3 €' 000 | Total €' 000 |
| Financial assets designated at fair value | - | 5,351 | - | 5,351 |
| | - | 5,351 | - | 5,351 |
| Preferred securities designated at fair value | - | 5,351 | - | 5,351 |
| | - | 5,351 | - | 5,351 |

The Company recognises transfers into and out of the fair value hierarchy levels at the beginning of the half year in which a financial instrument's transfer was affected. There were no transfers between Level 1 and 2 and vice versa during the year ended 31 December 2017.

Company's valuation processes and techniques

The Company uses widely recognised valuation models for determining the fair value of financial instruments that are not quoted in an active market that use only observable market data and require little management estimation and judgement. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recently 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

Notes to the Financial Statements (continued)

3. Principal risks and uncertainties (continued)

factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values also reflect the credit risk of the financial instrument and include adjustments to take into account the credit risk of the Parent Company, where appropriate.

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

Financial instruments not carried at fair value

The fair value hierarchy categorisation 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 | Level 2 | Level 3 | Fair Value | Carrying amount |
| | €' 000 | €' 000 | €' 000 | €' 000 | €' 000 |
| Held to maturity investment securities | - | 11,457 | - | 11,457 | 24,036 |
| | - | 11,457 | - | 11,457 | 24,036 |
| Preferred securities at amortised cost | - | 11,457 | - | 11,457 | 24,035 |
| | - | 11,457 | - | 11,457 | 24,035 |
| | 2016 | | | | |
| | Level 1 | Level 2 | Level 3 | Fair Value | Carrying amount |
| | €' 000 | €' 000 | €' 000 | €' 000 | €' 000 |
| Held to maturity investment securities | - | 6,717 | - | 6,717 | 22,833 |
| | - | 6,717 | - | 6,717 | 22,833 |
| Preferred securities at amortised cost | - | 6,717 | - | 6,717 | 22,835 |
| | - | 6,717 | - | 6,717 | 22,835 |

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value are in line with those used to calculate the fair values for financial instruments carried at fair value.

For preferred securities issued by the Company and the respective mirror assets (held to maturity portfolio), the fair values are determined using quotes for identical debt securities in markets that are not active. In particular, as at 31 December 2017 and for the comparative period they were fair valued using prices provided by Bloomberg.

4. Critical accounting estimates and judgements in applying accounting policies

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

Notes to the Financial Statements (continued)

4. Critical accounting estimates and judgements in applying accounting policies (continued)

4.1 Impairment losses of held to maturity investment securities

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

4.2 Fair value of financial instruments

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

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

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

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

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

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

5. Interest and similar income

| | <u>2017</u> | <u>2016</u> |
|--|---------------|---------------|
| | <u>€' 000</u> | <u>€' 000</u> |
| Interest on financial assets designated at fair value through profit or loss | 280 | - |
| Interest on held-to-maturity investment securities | <u>1,202</u> | <u>1,609</u> |
| | <u>1,482</u> | <u>1,609</u> |

Notes to the Financial Statements (continued)

5. Interest and similar income (continued)

Interest and similar income for the year ended 31 December 2017 consists of: a) the NPV unwinding of the impairment loss on held-to-maturity investment securities calculated based on the revised estimates for the bonds' present value of their future cash flows, (note 12), b) the amortisation of discount and c) the accrued interest of the bonds' coupons (note 18). There have been no cash receipts of interest for 2017 and 2016.

Information in relation with the non payment of bonds' coupon during 2017 is provided in note 11 and note 12.

6. Interest expense and similar charges

| | 2017 €' 000 | 2016 €' 000 |
|--|----------------|----------------|
| Interest on preferred securities designated at fair value through profit or loss | (280) | - |
| Interest on preferred securities at amortised cost | (1,200) | (1,607) |
| | <u>(1,480)</u> | <u>(1,607)</u> |

Interest expense and similar charges for the year ended 31 December 2017 consists of: a) the unwinding of the NPV adjustment on preferred securities at amortised cost calculated based on the revised present value of their future cash outflows (note 14), b) the amortisation of discount and c) the accrued interest of the preferred securities (note 18). There have been no cash payments of interest for 2017 and 2016.

Information in relation with the non payment of preferred securities dividend during 2017 is provided in Note 13 and Note 14.

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

| | 2017 €' 000 | 2016 €' 000 |
|---|----------------|----------------|
| Changes in fair value of financial liabilities designated at fair value | (3,596) | 1,892 |
| Changes in fair value of financial assets designated at fair value | 3,596 | (1,892) |
| | <u>0</u> | <u>0</u> |

8. Operating expenses

| | 2017 €' 000 | 2016 €' 000 |
|--|----------------|----------------|
| Fees payable to the Company's auditor for the statutory audit of the Company's annual financial statements | (26) | (25) |
| Secretarial and administration services | (23) | (43) |
| | <u>(49)</u> | <u>(68)</u> |

9. Income tax expense

The Company is liable to pay Jersey income tax at 0% (2016: 0%).

Notes to the Financial Statements (continued)

10. Deposits with banks

| | 2017 | 2016 |
|----------------------------------|------------|------------|
| | €' 000 | €' 000 |
| Deposits with the Parent Company | <u>111</u> | <u>167</u> |
| | <u>111</u> | <u>167</u> |

The sight accounts with the Parent Company have been considered as cash and cash equivalents for the purposes of the cash flow statement (note 2.8).

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

| Series | First call date | Maturity date | Interest rate | 2017 | | 2016 | |
|----------|-----------------|---------------|---|----------------------|----------------------|----------------------|----------------------|
| | | | | Face Value €' 000 | Fair Value €' 000 | Face Value €' 000 | Fair Value €' 000 |
| Series D | October 2014 | 29 July 2100 | Fixed rate at 8.25% per annum, payable on a quarterly basis | <u>19,500</u> | <u>9,226</u> | <u>19,500</u> | <u>5,351</u> |
| | | | | <u>19,500</u> | <u>9,226</u> | <u>19,500</u> | <u>5,351</u> |

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

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

From 2013 and until the end of 2017, the Parent Company considering that (a) there were not sufficient distributable reserves to meet the payment of dividends in respect of preferred securities and (b) being a recipient of state aid, according to EU and Greek law, was not permitted to make discretionary cash payments to any third party, including the Company, decided on the non payment of bonds' coupons of Series D.

As a consequence of the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 (note 18) and in accordance with the terms of series D preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next four coupon dates. Accordingly, the Parent Company proceeded with the payment of the mirror bond's coupons of series D, held by the Company. Consequently, the Company as at 31 December 2017 has recognised €280ths accrued interest income, regarding the 3month coupon received on 29 January 2018.

Notes to the Financial Statements (continued)

12. Held-to-maturity investment securities

| Series | First call date | Maturity date | Interest rate | 2017 | | 2016 | |
|----------|-----------------|-----------------|--|----------------------|---------------------------|----------------------|---------------------------|
| | | | | Face Value €' 000 | Carrying amount €' 000 | Face value €' 000 | Carrying amount €' 000 |
| Series A | March 2013 | 18 March 2035 | Fixed rate at 10 year euro swap rate plus 0.135% per annum, payable on an annual basis | 1,604 | 1,603 | 1,604 | 1,579 |
| Series B | November 2015 | 2 November 2035 | 3M Euribor plus 2.23%, payable on quarterly basis | 3,704 | 3,716 | 3,704 | 3,628 |
| Series C | July 2012 | 9 January 2036 | Fixed rate 6.01% per annum, payable on a quarterly basis | 18,946 | 18,717 | 18,946 | 17,626 |
| | | | | <u>24,254</u> | <u>24,036</u> | <u>24,254</u> | <u>22,833</u> |

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

From 2013 and until the end of 2017, the Parent Company considering that (a) there were not sufficient distributable reserves to meet the payment of dividends in respect of preferred securities and (b) being a recipient of state aid, according to EU and Greek law, is not permitted to make discretionary cash payments to any third party, including the Company, decided the non payment of bonds' coupons of Series A, B, and C.

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

For the year ended 31 December 2017, the Company recognised interest income of €1,165ths representing the increase of the net present value of the held to maturity investment securities due to the passage of time (unwinding).

In addition, and as a consequence of the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 (note 18) and in accordance with the terms of series A, B and C of preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next (one or four as appropriate) coupon dates. Accordingly, the Parent Company proceeded with the payment of the mirror bond's coupons of series A, B and C, held by the Company. Consequently, the Company as at 31 December 2017 has recognised in total €24ths accrued interest income for series A and B coupons, regarding the annual and 3month coupons received on 18 January and 2 February 2018, respectively. For series C of bonds issued by the Bank, as at 31 December 2017 the Company has not recognised any accrued interest income as the date of coupon payment (9 January 2018) was prior to the full redemption of the preference shares issued by the Bank.

Notes to the Financial Statements (continued)

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

| Series | First call date | 2017 | | 2016 | |
|----------|-----------------|----------------------|----------------------|----------------------|----------------------|
| | | Face Value €' 000 | Fair Value €' 000 | Face Value €' 000 | Fair Value €' 000 |
| Series D | October 2014 | 19,500 | 9,226 | 19,500 | 5,351 |
| | | <u>19,500</u> | <u>9,226</u> | <u>19,500</u> | <u>5,351</u> |

On 29 July 2009, the Company issued €300 million of preferred securities (series D), the outstanding face value of which amounts to €19.5 million. The preferred securities have no fixed redemption date and give the issuer the right to call the issue on the date presented above and annually thereafter. In addition, the securities subject to certain conditions, are convertible at the option of the holder and the issuer on October 2014 and annually thereafter into the Parent Company's ordinary shares at the lower of an exchange ratio based on a) 12% discount to the share market price during the period preceding the exchange or b) the nominal value of the Parent Company's ordinary share. All obligations of the issuer in respect of the preferred securities are guaranteed on a subordinated basis by the Parent Company. The securities, pay fixed non-cumulative dividend on a quarterly basis at a rate of 8.25% per annum. Preferred dividends on the preferred securities are declared by the directors of the Company and paid by the Company subject to the provisions relating to compulsory payments as set out in "Description of the Preferred Securities" and to certain limitations as set out in "Limitations on Payments" in the Prospectus of the issue, available at the Parent Company's website (www.eurobank.gr). The preferred securities are listed on the London Stock Exchange.

From 2013 and until the end of 2017, the directors of the Company considering the "Limitations of Payments" as set out in the Prospectus of the issue and the Parent Company's decision for the non payment of bonds coupons (note 11), proceeded with the non payment of Series D preferred dividends.

As a consequence of the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 (note 18) and in accordance with the terms of series D preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next four coupon dates. Consequently, the Company as at 31 December 2017 has recognised €280ths accrued interest expense, regarding the 3month coupon payable on 29 January 2018.

As at 31 December 2017, the cumulative fair value change was €10,553 ths gain (2016: €14,149 ths gain), which takes into account the credit risk of the Parent Company. The changes in the fair value of preferred securities are offset in the statement of comprehensive income against the changes in the fair value of financial assets designated at fair value.

All changes in the carrying amount of the Company's preferred securities designated at fair value through profit or loss had no effect in cash and cash equivalents.

Notes to the Financial Statements (continued)

14. Preferred securities at amortised cost

| Series | First call date | Interest rate | 2017 | | 2016 | |
|----------|-----------------|--|----------------------|---------------------------|----------------------|---------------------------|
| | | | Face value €' 000 | Carrying amount €' 000 | Face value €' 000 | Carrying amount €' 000 |
| Series A | March 2010 | Fixed rate at 10 year euro swap rate plus 0.125% per annum, payable on an annual basis | 1,604 | 1,603 | 1,604 | 1,579 |
| Series B | November 2015 | 3M Euribor plus 2.22%, payable on quarterly basis | 3,704 | 3,715 | 3,704 | 3,628 |
| Series C | January 2011 | Fixed rate 6.00% per annum, payable on a quarterly basis | 18,946 | 18,717 | 18,946 | 17,628 |
| | | | <u>24,254</u> | <u>24,035</u> | <u>24,254</u> | <u>22,835</u> |

The preferred securities have no fixed redemption date and give the issuer the right to call the issue at par, if certain conditions mentioned in the Offering Circular are met, on the dates presented above and annually or quarterly thereafter (subject to the terms of each issue). All obligations of the issuer in respect of the preferred securities are guaranteed on a subordinated basis by the Parent Company. The preferred securities pay non cumulative dividends which are declared by the directors of the Company and paid by the Company subject to the provisions relating to compulsory payments as set out in "Description of the Preferred Securities", and to certain limitations as set out in "Limitations on Payments" in the Prospectus of each issue, available at the Parent Company's website (www.eurobank.gr). The preferred securities are listed on various European Stock Exchanges, London, Frankfurt, Luxembourg and Euronext Amsterdam.

From 2013 and until the end of 2017, the directors of the Company considering the "Limitations of Payments" as set out in the Prospectus of each issue and the Parent Company's decision for the non payment of bonds coupons (note 12), proceeded with the non payment of dividends of series A, B and C.

In 2013, the Company, based on its estimates of dividend payments on the preferred securities, recognised an adjustment of €118,844ths.

For the year ended 31 December 2017, the Company recognised interest expense of €1,163ths representing the increase of the net present value of the preferred securities due to the passage of time.

As a consequence of the full redemption of the preference shares issued by the Parent Company in consideration for cash and subordinated Tier 2 notes on 17 January 2018 (note 18) and in accordance with the terms of series A, B and C of preferred securities, the Company declared the subsequent payment of the full amount of preferred dividend payable on the next (one or four as appropriate) coupon dates. Consequently, the Company as at 31 December 2017 has recognised in total €24ths accrued interest expense for series A and B coupons, regarding the annual and 3month coupons payable on 18 January and 2 February 2018, respectively.

For series C preferred securities the Company has not recognised any accrued interest expense, as the date of payment (9 January 2018) was prior to the full redemption of the preference shares issued by the Bank.

All changes in the carrying amount of the Company's preferred securities designated at amortised cost had no effect in cash and cash equivalents.

Notes to the Financial Statements (continued)

15. Share capital

| | 31 December 2017 | | 31 December 2016 | |
|---|------------------|-------|------------------|-------|
| | Number | €'000 | Number | €'000 |
| Authorised ordinary shares of € 1 each | 1,000,000 | 1,000 | 1,000,000 | 1,000 |
| Issued ordinary shares of € 1 each | 310,000 | 310 | 310,000 | 310 |
| Allotted and fully paid ordinary shares of € 1 each | 310,000 | 310 | 310,000 | 310 |

16. Related party transactions

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

In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others the percentage of the Parent Company's ordinary shares with voting rights held by the HFSF decreased from 35.41% to 2.38%. Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Bank based on the provisions of L. 3864/2010 and the new 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 | - | 111 | - | 167 |
| Financial assets designated at fair value through profit or loss | 9,226 | - | 5,351 | - |
| Held-to-maturity investment securities | 24,036 | - | 22,833 | - |
| Interest and similar income | 1,482 | - | 1,609 | - |
| Interest expense and similar charges | - | - | 428 | - |

Emoluments of the Directors

Stephen Langan is a director and Cheryl Anne Heslop is an alternate director of certain subsidiaries of Intertrust Fiduciary Services (Jersey) Limited (former Elian Fiduciary Services (Jersey) Limited), including Intertrust SPV Services Limited (former Elian SPV Services Limited) which provides administrative services to the Company. The Company for the year ended 31 December 2017 recognised expenses amounting to €14 ths relating to services provided by Intertrust entities. There were no unpaid balances to the said Company as at 31 December 2017.

17. Segmental reporting

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

Notes to the Financial Statements (continued)

18. Other significant and post balance sheet events

The Parent Company decided, pursuant to the decision of its Board of Directors (BoD) dated on 29 August 2017, to make use of the ability provided for in the new legislative framework (article 80 of Greek Law 4484/2017, published in Government Gazette on 1 August 2017) and to proceed to the redemption of its outstanding preference shares in consideration for cash or Tier 2 capital instruments, as defined in Reg.575/2013, or a combination thereof, having received the supervisory authority consent.

In this context, on 3 November 2017, the Extraordinary General Meeting of the Shareholders of the Bank, pursuant to the submission on 27 September 2017 of a written request to the Minister of Finance by the Parent Company along with the positive opinion of the ECB/Single Supervisory Mechanism (SSM) received on 12 October 2017, approved among others the full redemption by the Parent Company of the 345,500,000 preference registered shares, which have been issued by the Bank in accordance with Article 1 of Law 3723/2008 and are owned by the Greek State, having an aggregate nominal value of €950,125,000 (Preference Shares) in consideration for (i) €125,000 in cash, and (ii) the delivery to the Greek State of €950,000,000 principal amount of subordinated notes issuable by the Bank, which constitute Tier 2 capital instruments, in accordance with the provisions of par. 1a of article 1 of Law 3723/2008.

Post balance sheet events

A) On 18 January 2018, the Parent Company announced the completion of the full redemption of its preference shares without voting rights held by the Hellenic Republic of total nominal value €950,125,000, according to the provisions of par. 1a, article 1, of Law 3723/2008 and the decisions of its Extraordinary General Meeting of its common shareholders as at 3 November 2017.

The redemption, has been completed partially with cash and partially with the issuance of Tier 2 capital instrument of total amount €950,000,000 according to the EU Regulation 575/2013. Following the redemption of the Preference Shares and in accordance with the terms and conditions of the preferred securities issued by ERB Hellas Funding Limited, the Company declared and paid the non-cumulative dividends of € 0.7 million in total on the Series D, B, A and C that were payable on 29 January, 2 February, 18 March and 9 April 2018, respectively. Accordingly, the Parent Company proceeded with the payment of coupons of the mirror securities issued, held by the Company.

B) The Parent Company, along with the other three Greek systemic banks directly supervised by the ECB, is undergoing the 2018 EU-wide stress test launched by the European Banking Authority (EBA) on 31 January 2018. The stress test process for the Greek systemic banks is currently in progress and the results are expected to be published in May 2018.