ERB Hellas PLC

# Annual Report

**For the year ended 31 December 2018**

Company's registration number: 3798157

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**Strategic Report**

The directors present their Strategic Report of the Company for the year ended 31 December 2018.

**i) Business review and principal activities**

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

The net profit for the year amounted to € 55 ths, attributable to the reversal of IFRS 9 expected credit losses (ECL) (2017 loss: € 85 ths). No dividend was paid in 2018 and there is no subsequent decision of the Board of Directors (BOD) for distribution of dividend (2017: nil). During the year the Company proceeded with the issue of loan notes of nominal value of € 23,338 ths, while loan notes of nominal of € 47,889 ths matured.

**ii) Business environment, strategy and future outlook**

The Company's business strategy and activities are linked to those of its Parent Company. In 2018, the Parent Company's Group has operated in an environment of positive growth rates both in Greece and the other countries, in which it has a substantial presence. Specifically, the gradual improvement of the macroeconomic environment in Greece supported by the successful conclusion of the third economic adjustment program (TEAP) in August, along with the positive outcome of the European Banking Authority (EBA) Stress Test for the domestic banks, affected positively the Greek banking sector. In this context, the Parent Company's Group enhanced its organic profitability, improved further its liquidity position by a robust deposit increase and reduced substantially the Non Performing Exposures (NPEs) stock in line with the annual target.

In 2019, real GDP for Greece (Group's main market) is expected to grow by 2.2% according to the May 2019 forecast by European Commission (2018: 1.9%, according to the Hellenic Statistical Authority's (ELSTAT) estimate). Based on ELSTAT and Ministry of Finance data, the unemployment rate in March 2019 was at 18.1% (March 2018: 20.2%) and the 2018 fiscal primary surplus was at 4.3% of GDP. The Budget fiscal primary surplus forecast for 2019 is at 3.6% of GDP. Following the successful conclusion of the third economic adjustment program (TEAP) in August 2018, Greece has entered into the Enhanced Post Program Surveillance (EPPS), which foresees quarterly reviews by the institutions (EC/ECB/ESM/IMF) and has completed the first, second and third review at the end of November 2018, early March 2019 and early June 2019, respectively. On 5 April 2019, the Eurogroup endorsed the release of the first set of policy-contingent debt measures of € 970 million.

On 25 June 2018, Standard & Poor's (S&P) upgraded the Greek sovereign rating from B to B+ with a stable outlook on the basis of the 21 June 2018 Eurogroup's decisions and the creation of a fiscal buffer aiming to facilitate the return of the country to the international markets and on the debt maturity extensions. S&P on 20 July 2018, revised its outlook on Greece to positive from stable on improved policy predictability and growth prospects. Fitch on 10 August 2018, upgraded Greece to BB- from B with a stable outlook on the basis of the conclusion of the fourth review, the end of the TEAP and the improved economic and fiscal conditions.

**Strategic Report (continued)**

On 1 March 2019, Moody's upgraded the Greek sovereign rating from B3 to B1 on the basis of the improved economic performance, the ongoing post programme surveillance scheme, the track record of strong fiscal performance, the public debt sustainability after the implementation of the medium term debt relief measures in June 2018 and the recent re-established market access. The sovereign's rating is still significantly below the investment grade rating but the ratings upgrades, the successful graduation from the TEAP, the conclusion of the three consecutive EPPS reviews and the developments in the fiscal front and the benevolent international environment together with the new pro-reform government formed after the 7 July 2019 general elections, led to the improvement of the yield of the Greek 10-years bonds by ca. 159.5 basis points between the end of August 2018, just after the end of the TEAP, and 16 July 2019. On the back of this environment, the Greek government managed to tap the markets three times with the successful issuance of a 5-year bond of €2.5bn at a yield of 3.6% on 29 January 2019, a 10-year reference bond of €2.5bn at a yield of 3.9% on 6 March 2019 and a 7-year bond of €2.5bn at a yield of 1.9% on 16 July 2019.

The Parent Company has faced significant challenges over recent years and it still has a large non-performing loan portfolio. In addition, it is systemically linked to the Greek economy, which itself has had very significant and well publicised difficulties, including high unemployment and slow growth. Whilst the position of both the Parent Company and the Greek economy have improved, there remain challenges ahead as set out below, which are a potential uncertainty for the Parent Company.

The following risks and challenges were identified in the financial statements for the period ended 31 March 2019 of the Parent Company, which were approved in May 2019:

The major macroeconomic risks and uncertainties in Greece are associated with (i) the adherence to established reforms and the unimpeded implementation of the reforms' agenda in order to meet the EPPS targets and milestones, (ii) 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, (iii) the ability to attract new investments in the country and (iv) the geopolitical conditions in the near or in broader region and the external shocks from a slowdown in the regional and/ or global economy. Materialization of those risks would have potentially adverse effects on the liquidity and solvency of the Greek banking sector, including the Parent Company's profitability, liquidity and solvency. In addition, the Parent Company is also subject to the risk of not timely delivering on all parts of its NPE reduction acceleration plan, which is expected to restore the Group's NPE ratio from 36.7% at March 31 2019, to 16% at the end of 2019 and to a single digit by 2021.

On the other hand, the decisive implementation of the reforms agreed in the context of the EPPS, the implementation of medium term debt relief measures in accordance with the 21 June 2018 Eurogroup decisions, the mobilization of European Union funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model will improve the confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a strong and sustainable growth path.

The directors monitor the progress of the Company by reference to financial and non-financial data available to them on a regular basis. Particular attention is paid to net interest income and the balances of debt instruments outstanding at the reporting date. The assessment by the directors of the Company's ongoing business model is closely associated with the business decisions and operations of the Parent Company. Considering the above and the most recent stress testing, the Board of Directors have made an assessment of the Company covering at least 12 months from the date of approval of these financial statements. The directors are satisfied that this assessment, which takes into account reasonably possible downsides, shows that the capital and liquidity position of the Parent Company are sufficient to allow it to repay the deposits

**Strategic Report (continued)**

as they fall due. Extreme events, whereby the Parent Company could not repay the deposits are considered by the directors to be remote. Therefore the directors are confident that the Company will be able to meets its obligations as they fall due for at least a 12 month period from the signing of these accounts and have concluded that the financial statements of the Company can be prepared on a going concern basis.

**iii) Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a number of risks. All of the key business risks affecting the Company, including credit risk, are managed in coordination with the Parent Company, and are set out in notes 2 and 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. It is wholly reliant on these deposits being repaid on time to be able to repay issued notes as they fall due. Further information for the financial position of the Parent Company, are discussed in the Directors' Report and the notes to the consolidated financial statements included in the 2018 Annual Financial Report of Eurobank Ergasias S.A, which was signed on 29 March 2019 (available at website: www.eurobank.gr).

On behalf of the Board

Anastasios Ioannidis
Director
**Company's registration number: 3798157**
31 July 2019

**Directors' Report**

The directors submit their report and the audited financial statements of the Company for the year ended 31 December 2018.

**i) General Information**

The Company is a public, limited by shares company, with registered number 3798157 and registered office 2nd floor, Devonshire House, 1 Mayfair Place, London W1J 8AJ, United Kingdom, is incorporated and domiciled in UK and is a wholly owned subsidiary of Eurobank Ergasias S.A., a bank incorporated in Greece.

**ii) 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.

**iii) Future Developments**

The Company's future developments are linked to the Parent Company's operations, further discussed in the Strategic Report.

**iv) Financial Risk Management**

The Company's Financial Risk Management is disclosed in the Strategic Report on page 5, section (iii).

**v) Dividends**

Information on the Company's dividends is included in the Strategic Report on page 3.

**vi) Directors**

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

Anastasios Ioannidis

Dimosthenis Archontidis (resigned on June 30, 2019)

Nikolaos Laios

Dimitra Spyrou (resigned on July 1, 2019)

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

**vii) Corporate governance**

The directors have been charged with governance in accordance with the offering circular describing the structure and operation of the transaction. The governance structure of the Company is such that the key policies have been predetermined at the time of issuance and the operational roles have been assigned to third parties with their roles governed by the transaction documents.

The transaction documents provide for procedures that have been designed for safeguarding assets against unauthorised use or disposition, for maintaining proper accounting records, and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives whilst enabling the directors to comply with their regulatory obligations.

Due to the nature of the securities that have been issued, the Company is largely exempt from the disclosure requirements of the Financial Conduct Authority pertaining to the Disclosure and Transparency Rules (DTR) as detailed in DTR 7.1, audit committees and 7.2, corporate governance statements (save for DTR 7.2.5 a requiring description of the features of the internal control and risk management systems), which would otherwise require the Company respectively, to have an audit committee in place and include a corporate

**Directors' Report (continued)**

governance statement in the Directors' Report.

The directors are therefore satisfied that there is no requirement for an audit committee or a supervisory body entrusted to carry out the functions of an audit committee or to publish a corporate governance statement.

**viii) Parent Company**

The Parent Company is Eurobank Ergasias S.A., incorporated in Greece. The Parent Company's ownership is analysed further in note 14.

**ix) Directors' responsibilities statement**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law 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 period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 Act 2006.
They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement.
The directors 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 of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

In the case of each director in office at the date the Directors' Report is approved:

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

**Directors' Report (continued)**

**x) Independent Auditors**

Following the 24 February 2017 decision of the Board of Directors (BoD) of Eurobank Ergasias SA, to appoint KPMG Certified Auditors A.E. (KPMG) as the audit firm to conduct the statutory audit of the financial statements of the Parent Company for the period 2018-2022, ERB Hellas PLC appointed KPMG LLP as statutory auditor for 2018 year end.

The Directors' Report was approved by the Board of Directors on 31 July 2019 and was signed on its behalf by:

Anastasios Ioannidis

Director

31 July 2019

# *Independent auditors' report to the members of ERB Hellas PLC*

## Report on the audit of the financial statements

**1 Our opinion is unmodified**

We have audited the financial statements of ERB Hellas PLC ("the Company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cashflow Statement, and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the board of directors.

We were first appointed as auditor by the directors on 10 July 2019. The audit for the year ended 31 December 2018 was our first. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

**2 Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

| **The Key Audit Matter** | | **Our response** |
|---|---|---|
| **Going Concern**<br><br>Note 2 to the financial statements indicates the risk to the Company of a downturn in the Greek economy or of the liquidity, profitability and capital position of Eurobank Ergasias S.A ('the Parent Company').<br><br>The Company is a wholly owned subsidiary of the Parent Company, and its business strategy and activities are | **Heightened levels of uncertainty and *disclosure quality***<br><br>The Company is thinly capitalized, has no other sources of liquidity and is dependent on the Parent being able to repay the deposits to the Company to allow it to repay the Notes.<br><br>The financial statements explain how the Board has formed a judgement that it is | Our procedures included:<br><br>- Evaluation of the going-concern assessment performed by the Directors<br><br>- Read the assessment of the developments in the macroeconomic environment to verify they are consistent with our industry knowledge<br><br>- Evaluation of the results/performance of the |

| | | |
|---|---|---|
| dependent on those of its Parent Company. The Company was incorporated as part of the funding strategy of its Parent in order to establish a program for the Issuance of medium term debt instruments ("Notes"). The Company invests the proceeds from the Notes in time deposits with the Parent on a matched basis.<br><br>If the Parent Company is not able to repay the deposits, then the Company will be unable to repay Note holders and would not be a going concern.<br><br>Consequently the entity's ability to continue as a going concern is dependent on the Going Concern of its parent.<br><br>Whilst the position of both the Parent Company and the Greek economy have improved, there remain challenges for both. | appropriate to adopt the going concern basis of preparation for the Company.<br>That judgement is based on an evaluation of the inherent risks to the Parent Company's business and how it might affect its ability to continue operations over a period of at least a year from the date of approval of the financial statements.<br><br>The three key risks to the Parent Company, that would then impact the going concern of the Company are: increased losses due to assets performing below expectations; loss or reduction of funding sources and worsening of the capital position.<br><br>The risk for our audit is whether or not one or more of those risks for the Parent Company are such that they amount to a material uncertainty that may cast significant doubt about the ability of the Company to continue as a going concern.<br><br>The financial statements need to clearly disclose the risks faced by the Company and how the Board have concluded that the going concern basis is appropriate. | Parent Company in the latest financial year<br><br>- Evaluation of the Parent Company's capital adequacy results as set out in regulatory returns<br><br>- Evaluation of the Current liquidity position of the Parent as set out in regulatory returns including the results of liquidity stress analysis of the Parent Company<br><br>- Performing independent research on recent developments for the Parent Company and the Greek economy<br><br>- Obtaining a letter of support from the Parent Company<br><br>- Considering the adequacy of disclosures relating to going concern in the financial statements.<br><br>**Our results:**<br>The results of our testing were satisfactory and we concluded the Parent Company has the intent and ability to support the Company to allow it to continue as a going concern. The accounts contain adequate disclosure of this matter. |
| **Level of Expected Credit Losses on deposits held with the Parent company**<br><br>*€1.008m provision*<br><br>*2.6 Accounting Policy*<br>*Note 10 for detail* | **Subjective Estimate**<br><br>IFRS 9 was implemented by the Company on 1 January 2018. This new and complex standard requires Company to recognise expected credit losses ("ECL") on financial instruments which involves significant judgement and estimates. The Company has recorded €1.169m as transition provision as at 1 January 2018. During the year, there was release in ECL | Our procedures included:<br><br>- Understanding and challenging the ECL methodology adopted by the Company<br><br>- Involving our own specialists in evaluating the appropriateness of the methodology applied by the Company<br><br>- verifying key inputs into the ECL calculation from the external credit rating agency |

| | | |
|---|---|---|
| | provisions from €1.169m as at 1 January 2018 to €1.008m as at 31 December 2018.<br><br>The key area where we identified greater levels of management judgement and therefore increased levels of audit focus in the Company's implementation of IFRS 9 is the sourcing and calculation of the probability of default of deposits with the parent company. The Company uses PDs provided by an external credit rating agency, and takes a three month average of daily annualized PDs.<br><br>**Disclosure quality**<br><br>The disclosures regarding the Company's application of IFRS9 are key to explaining the key judgements and material inputs to the IFRS9 ECL results | and reperforming calculations of the ECL<br><br>- benchmarking the PDs used by the Company with other entities with exposure to the Parent Company<br><br>- Evaluating the appropriateness of the criteria for determining the stages of impairment using our knowledge of the industry<br><br>**Assessing transparency**<br>We assessed whether the disclosures appropriately disclose and address the uncertainty which exists when determining the expected credit losses. As part of this, we re-performed and assessed the sensitivity analysis that is disclosed. In addition, we assessed whether the disclosure of the key judgements and assumptions made was sufficiently clear.<br><br>**Our results:**<br>The results of our testing were satisfactory and we consider the ECL charge and provision recognised, and the related disclosures to be acceptable. |

**3 Our application of materiality and an overview of the scope of our audit**

Materiality for the financial statements as a whole was set at Euro 332,000, determined with reference to a benchmark of Total Assets of Euro 33.2 million (of which it represents 1%).

We consider Total Assets to be the most appropriate benchmark for materiality as the Company is a special purpose entity, set up by Eurobank Ergasias S.A whose principal purpose is to raise debt to be deposited with the Parent Company. Accordingly, the Company is not established with the objective of profit maximisation but rather its main purpose is to act as funding vehicle for the Parent Company. As such, total assets are deemed to be the benchmark which users of the financial statements focus their attention on.

**4 We have nothing to report on going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are

inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have anything material to add or draw attention to in relation to the directors' statement in Note 1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for a period of at least twelve months from the date of approval of the financial statements.
We have nothing to report in these respects.

**5 We have nothing to report on the strategic report and directors report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and, accordingly, we do not express an audit opinion.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on our work on those reports:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**6 We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**7 Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page 7, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

***Auditor's responsibilities***

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 other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities 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 the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

***Irregularities – ability to detect***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the company's licence to operate. We identified the following areas as those most likely to have such an effect: specific areas of, money laundering, sanctions list and financial crime, market abuse regulations and certain aspects of Company legislation recognising the financial and regulated nature of the Company's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

**8 The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

**Mike Heath (Senior Statutory Auditor)**
**for and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*
15 Canada Square
London
E14 5GL

31 July 2019

## Statement of Comprehensive Income

| | Note | Year ended 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| | | **€ ths** | € ths |
| Interest income | 5 | **1,691** | 2,690 |
| Interest expense and similar charges | 6 | **(1,657)** | (2,667) |
| Net interest income | | **34** | 23 |
| Net gains from financial instruments | 7 | **-** | 0 |
| Foreign exchange losses | | **(1)** | (1) |
| Impairment (losses)/reversal | 10 | **161** | - |
| Operating expenses | 8 | **(139)** | (107) |
| **Profit/(Loss) before income tax** | | **55** | (85) |
| Income tax expense | 9 | **-** | - |
| **Total comprehensive income/(loss) for the year** | | **55** | (85) |

The notes on pages 18 to 42 form an integral part of these financial statements.

## Balance Sheet

| | Note | As at 31 December 2018 € ths | 2017 € ths |
|---|---|---|---|
| **Assets** | | | |
| Deposits with banks | 10 | **33,297** | 59,873 |
| **Total assets** | | **33,297** | 59,873 |
| | | | |
| **Liabilities** | | | |
| Liabilities evidenced by paper at amortised cost | 11 | **33,202** | 58,694 |
| Other liabilities | 12 | **93** | 63 |
| **Total liabilities** | | **33,295** | 58,757 |
| | | | |
| **Equity** | | | |
| Share capital | 13 | **19** | 19 |
| Retained earnings | | **(17)** | 1,097 |
| **Total equity** | | **2** | 1,116 |
| | | | |
| **Total equity and liabilities** | | **33,297** | 59,873 |

The financial statements on pages 14 to 42 were approved by the Board of Directors on 31 July 2019 and were signed on its behalf by:

Anastasios Ioannidis

Director

Company's registration number: 3798157

The notes on pages 18 to 42 form an integral part of these financial statements.

## Statement of Changes in Equity

| | Share capital € ths | Retained earnings € ths | Total € ths |
|---|---|---|---|
| Balance at 1 January 2017 | 19 | 1,182 | 1,201 |
| Loss for the year | - | (85) | (85) |
| Total comprehensive loss for the year ended 31 December 2017 | - | (85) | (85) |
| Balance at 31 December 2017 | 19 | 1,097 | 1,116 |
| **Balance at 1 January 2018** | **19** | **1,097** | **1,116** |
| Impact of adopting IFRS 9 at 1 January 2018 (note 2.14.1) | - | (1,169) | (1,169) |
| **Balance at 1 January 2018, as restated** | **19** | **(72)** | **(53)** |
| Profit for the year | - | 55 | 55 |
| Total comprehensive income for the year ended 31 December 2018 | **-** | **55** | **55** |
| **Balance at 31 December 2018** | **19** | **(17)** | **2** |

The notes on pages 18 to 42 form an integral part of these financial statements.

## Cash Flow Statement

| | Note | Year ended 31 December 2018 € ths | 2017 € ths |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest and similar income received | | **2,645** | 2,752 |
| Interest and similar charges paid | | **(2,597)** | (2,538) |
| Cash payments to suppliers | | **(115)** | (128) |
| Net increase / (decrease) in other liabilities | 12 | **4** | - |
| Net (increase)/decrease in deposits with banks | | **24,551** | (1,756) |
| **Net cash (used in)/generated from operating activities** | | **24,488** | (1,670) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of loan notes | | **23,338** | 9,800 |
| Repayments of loan notes | | **(47,889)** | (8,203) |
| **Net cash generated from/(used in) financing activities** | | **(24,551)** | 1,597 |
| **Net decrease in cash and cash equivalents** | | **(63)** | (73) |
| Cash and cash equivalents at beginning of period | | **1,166** | 1,239 |
| **Cash and cash equivalents at end of period** | 10 | **1,103** | 1,166 |

The notes on pages 18 to 42 form an integral part of these financial statements.

# Notes to the Financial Statements

## 1. General information

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

## 2. Accounting policies

### 2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the IASB, as adopted by the European Union (EU) and in particular with those IFRSs and IFRIC interpretations issued and effective as at the time of preparing these statements, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The accounting policies for the preparation of the financial statements have been consistently applied to the years 2018 and 2017, adjusted where necessary in 2018 and after taking into account the amendments in IFRS described in sections 2.1.a & b "New and amended standards and interpretations" and the amendments following the adoption of IFRS 9. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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

The Company's presentation currency is the Euro (€) being the functional currency of the Company. Except as indicated, financial information presented in Euros has been rounded to the nearest thousand.

**Going concern considerations**

The financial statements have been prepared on a going concern basis. In making their assessment of the Company's ability to continue as a going concern, the directors have taken into account that the assets of the Company, represent an inter-company balance with the Parent Company, and settlement of these assets is required to meet its obligations. In addition, the Parent Company will provide sufficient support to the Company, if required, taking into account any potential impact of ECL measurement according to IFRS 9. As such, the directors have taken into consideration the ability of the parent to repay the assets.

The Parent Company has faced significant challenges over recent years and it still has a large non-performing loan portfolio. In addition, it is systemically linked to the Greek economy, which itself has had very significant and well publicised difficulties, including high unemployment and slow growth. Whilst the position of both the Parent Company and the Greek economy have improved, there remain challenges ahead as set out below, which are a potential uncertainty for the Parent Company.

The following risks and challenges were identified in the financial statements for the period ended 31 March 2019 of the Parent Company, which were approved in May 2019:

The major macroeconomic risks and uncertainties in Greece are associated with (i) the adherence to established reforms and the unimpeded implementation of the reforms' agenda in order to meet the EPPS targets and milestones, (ii) 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,

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

### 2.1 Basis of preparation (continued)

(iii) the ability to attract new investments in the country and (iv) the geopolitical conditions in the near or in broader region and the external shocks from a slowdown in the regional and/ or global economy. Materialization of those risks would have potentially adverse effects on the liquidity and solvency of the Greek banking sector, including the Parent Company's profitability, liquidity and solvency. In addition, the Parent Company is also subject to the risk of not timely delivering on all parts of its NPE reduction acceleration plan, which is expected to restore the Group's NPE ratio from 36.7% at March 31 2019, to 16% at the end of 2019 and to a single digit by 2021 (see point d below).

The following factors were also considered by the Parent Company in their going concern assessment:

a) The Group operates in an environment of positive growth rates both in Greece and the other countries, in which it has a substantial presence. Specifically, in 2019, real GDP for Greece (Group's main market) is expected to grow by 2.2% according to the May 2019 forecast by European Commission (2018: 1.9%, according to the Hellenic Statistical Authority's (ELSTAT) estimate). Based on ELSTAT and Ministry of Finance data, the unemployment rate in March 2019 was at 18.1% (March 2018: 20.2%) and the 2018 fiscal primary surplus was at 4.3% of GDP. The Budget fiscal primary surplus forecast for 2019 is at 3.6% of GDP. Following the successful conclusion of the third economic adjustment program (TEAP) in August 2018, Greece has entered into the Enhanced Post Program Surveillance (EPPS), which foresees quarterly reviews by the institutions (EC/ECB/ESM/IMF) and has completed the first, second and third review at the end of November 2018, early March 2019 and early June 2019, respectively. On 5 April 2019, the Eurogroup endorsed the release of the first set of policy-contingent debt measures of € 970 million. In 2019, the Greek sovereign demonstrated market access with the successful issuance of a 5-year bond of € 2.5 bn at a yield of 3.6% on 29 January 2019, a 10-year reference bond of € 2.5 bn at a yield of 3.9% on 6 March 2019 and a 7-year bond of €2.5bn at a yield of 1.9% on 16 July 2019.

b) The Group's Common Equity Tier 1 (CET1) ratio stood at 13.6% at 31 March 2019, and the net profit attributable to shareholders amounted to € 20 million (€ 27 million net profit from continuing operations before € 4 million restructuring costs, after tax) for the first quarter of 2019. The merger with Grivalia in April 2019 has further enhanced the Eurobank capital and its earning capacity leading the pro forma CAD and CET1 to 18.2% and 15.7% respectively as at 31 March 2019. In addition to the above, the directors of the Company note that, according to Moody's, in March 2019 the credit rating of the Group improved to Caa1.

c) The Bank has eliminated the use of ELA as of end January 2019 and reduced the dependency on Eurosystem financing facilities to € 1.3 bn at 31 March 2019 through the increase of deposits, interbank repos and debt issued. The Group's (net) loans to deposits (L/D) ratio stood at 91.7% end of March 2019.

d) As at 31 March 2019, the Group has reduced its NPE stock within a year by € 3bn to € 16.5bn driving the NPE ratio to 36.7%. At the end of June, the Parent Company reached an agreement for the sale of 95% of the mezzanine and junior notes of a securitization of non performing residential mortgage loan portfolio of €2bn, which represents the second significant milestone of the Parent Company's frontloaded plan for derisking its balance sheet. Going forward, the Parent Company is in process of completing the next 2 steps of its plan a) the sale of 20% of the mezzanine notes of a securitization of a mixed assets portfolio with a gross book value of c. € 7.4bn and b) the sale of a majority stake in Financial Planning Services (FPS), the licensed 100%-owned loan servicer of Eurobank.

In making the going concern assessment for the Company, the directors of the Company, in addition to the above have also considered the ILAAP (Internal Liquidity Adequacy Assessment Process) stress test results of the Parent Company as follows.

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

One of the main quantitative tools that Eurobank utilizes in order to confirm the soundness of its liquidity adequacy is its liquidity stress testing framework. These are based on business plans for the Group. Eurobank runs the liquidity stress tests on a monthly basis and their results are reviewed by Group ALCO. In the Group 2019 ILAAP, Eurobank uses the below five short-term stress test scenarios:

· An idiosyncratic scenario (Eurobank specific); refers to internal or external events that affect the Eurobank's reputation

· A mild Greek market scenario; refers to any event related to the Greek economy that would result to mild negative effects at the Eurobank's operations

· Severe Greek market scenario; refers to any event related to the Greek economy that would severely affect Eurobank

· Global market scenario; refers to any severe event related to the global economy that would affect key market parameters

· Adverse (worst case) scenario; it is a combination of the Severe Greek market and Global market scenario

The results of the stress tests indicate that Eurobank has adequate liquidity to withstand to all stress test scenario effects.

Going concern assessment

Considering the above and the most recent stress testing, the Board of Directors have made an assessment of the Company covering at least 12 months from the date of approval of these financial statements. The directors are satisfied that this assessment, which takes into account reasonably possible downsides, shows that the capital and liquidity position of the Parent Company are sufficient to allow it to repay the deposits as they fall due. Extreme events, whereby the Parent Company could not repay the deposits are considered by the directors to be remote. Therefore the directors are confident that the Company will be able to meets its obligations as they fall due for at least a 12 month period from the signing of these accounts and have concluded that the financial statements of the Company can be prepared on a going concern basis.

**(a) New and amended standards and interpretations adopted by the Company**

The following new standards, amendments to standards and new interpretations 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 2018:

**IFRIC 22, Foreign Currency Transactions and Advance Consideration**

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

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

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

**IFRS 15, Revenue from Contracts with Customers and IFRS 15 Amendments**

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 had no impact on 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.

**IFRS 9, Financial Instruments**

On 1 January 2018, the Company adopted IFRS 9 'Financial Instruments', which replaced IAS 39, 'Financial Instruments: Recognition and Measurement'. The adoption of IFRS 9 in 2018 resulted in changes in accounting policy in two principal areas, classification and measurement of financial assets and liabilities and impairment of financial assets.

Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed in note 2.13.1. The Company has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9.

*Changes in the classification and measurement*

IFRS 9 applies 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).

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Reclassifications between categories are performed only in rare circumstances.

For the purpose of the transition to IFRS 9, the Company carried out a business model assessment for its financial assets to determine any potential changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that exist at the date of initial application i.e. 1 January 2018.

The IAS 39 categories of financial assets (fair value through profit or loss (FVTPL), available for sale (AFS), held-to-maturity (HTM) and Loans and Receivables) have been replaced by:

- Debt instruments measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income (FVOCI), with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets measured at FVTPL

The Company may at initial recognition, designate a financial asset at FVTPL in order to eliminate or significantly reduce an accounting mismatch.

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.1 Basis of preparation (continued)**

The IFRS 9 eligibility requirements for applying the fair value option to measure financial liabilities at FVTPL are consistent with those of IAS 39. 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.

Finally, under IFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The Company's classification of its financial assets and liabilities is explained in Sections 2.4 and 2.7 of this note. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.13.1.

*Changes to the impairment calculation*

The adoption of IFRS 9 has changed significantly the Company's accounting for the impairment of financial assets by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach, which requires the use of complex models and significant judgment about future economic conditions and credit behavior. Credit losses are recognized earlier under IFRS 9 compared to IAS 39.

IFRS 9 requires the Company to record an allowance for credit loss for all financial assets not held at FVTPL.

The allowance is based on the ECL calculation of the related probability of default of the debtor in the next twelve months unless there has been a significant increase in credit risk since origination of the exposure, when lifetime ECL is measured.

If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECL over the life of the asset.

Details of the Company's impairment policy are disclosed in Section 2.6 of this note. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in note 2.13.1.

*Consequential changes in disclosures (IFRS 7 'Financial Instruments: Disclosures')*

Effective from 1 January 2018, due to IFRS 9 transition, these financial statements include transition disclosures, which provide qualitative and quantitative information about the impact from the revised classification and measurement and ECL principles. In addition, these financial statements include, the enhanced classification and measurement and impairment disclosures as required by the related amendments to IFRS 7 'Financial Instruments: Disclosures'.

**(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 2018, as they have not yet been endorsed by the European Union or have not been early applied by the Company. The following amendments to existing standards and interpretations listed below, that are relevant to the Company and they will be effective from 1 January 2019, are not expected to have a material impact to the Company:

- IFRS 9, Amendment–Prepayment Features with Negative Compensation (effective 1 January 2019),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020, not yet endorsed by EU) and;
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020, not yet endorsed by EU).

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.2 Interest income and expense**

***Policy applicable from 1 January 2018***

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

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets it is adjusted for the expected credit loss allowance. The gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.

The EIR calculation includes all fees and points paid or received that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

The Company calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) and to the amortized cost of financial liabilities respectively.

For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Company calculates interest income by applying the effective interest rate to the amortized cost of the financial asset (i.e. gross carrying amount adjusted for the expected credit loss allowance). If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

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

***Policy applicable before 1 January 2018***

Interest income and expense is 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 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 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 profit or loss.

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.3 Transactions in Foreign currency (continued)**

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 profit or loss. Exchange differences on financial assets and liabilities measured at fair value through profit or loss are reported as part of the fair value gain or loss.

The called up share capital denominated in sterling has been translated into euro on the exchange rate at 31 December 2002, being the date the Company changed its functional and reporting currency from sterling to euro.

**2.4 Financial assets**

***Policy applicable from 1 January 2018***

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

Purchases and sales of financial assets are recognized on trade date, which is the date the Company commits to purchase or sell the assets.

**Financial Assets measured at Amortized Cost ('AC')**

The Company classifies and measures a financial asset at AC only if both of the following conditions are met:

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

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

These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method.

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

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

The Company classifies and measures a financial asset at FVOCI only if both of the following conditions are met:

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

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

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

The Company classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Company at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

### 2.4 Financial assets (continued)

**Business model and contractual characteristics assessment**

The business model assessment determines how the Company manages a group of assets to generate cash flows. That is, whether the Company's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which are managed similarly rather than at an individual instrument's level.

The business model is determined by the Company consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable.

Accordingly, in making the above assessment, the Company will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

***Types of business models***

The Company's business models may fall into three categories, which are indicative of the key strategies used to generate returns.

The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model.

The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model.

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

The Company re assesses its business models at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Company's strategy and main activities.

***Cash flow characteristics assessment***

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

In assessing whether the contractual cash flows are SPPI, the Company will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.4 Financial assets (continued)**

assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Company considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments.

The Company performs the SPPI assessment for its portfolios on an individual basis.

Following the Company's business model and cash flow characteristics assessments, its financial assets fall into the category of HTC, which are measured at amortized cost.

***Derecognition of financial assets***

The Company derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Company assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Company has transferred control of the asset. Control is 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 and the sum of (i) the consideration received and (ii) any cumulative gain or loss that had been recognized in OCI for financial assets at FVOCI, is recognized in income statement.

***Policy applicable before 1 January 2018***

The Company classifies its financial assets in the following IAS 39 categories: financial assets at fair value through profit or loss and loans and receivables. 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 held for trading, i.e. derivatives.

(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.

*Accounting treatment and calculation*

Purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the assets. 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 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.

*Derecognition of financial assets*

The Company derecognises a financial asset when its contractual cash flows expire, or the rights to receive

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.4 Financial assets (continued)**

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. 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 half year in which a financial instrument's transfer was effected.

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.6 Impairment of financial assets**

***Policy applicable from 1 January 2018***

The Company recognizes allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI.

ECL are a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Company records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument. If upon initial recognition, the financial asset meets the definition of purchased or originated credit impaired (POCI), the loss allowance is based on the change in the ECL over the life of the asset.

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

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

*Definition of default*

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

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event.
- The Company, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Company would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

### 2.6 Impairment of financial assets (continued)

*Significant increase in credit risk (SICR) and staging allocation*

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, since initial recognition.

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

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

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

*Transfers from Stage 2 to Stage 1*

A financial asset, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the Stage 2 Criteria.

*Transfers from Stage 3 to Stage 2*

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

*Measurement of Expected Credit Losses*

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Company in accordance with the contractual terms of the instrument and the cash flows that the Company expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument, or the credit-adjusted EIR in case of purchased or originated credit impaired assets (POCI). In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered.

The Company estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources.

ECL are calculated over the maximum contractual period over which the Company is exposed to credit risk, which is determined based on the substantive terms of the instrument.

*ECL Key Inputs*

The Company uses for the ECL calculations the term structures of the probability of default -PD (12-month PD & Lifetime PD), the loss given default (LGD) and the exposure at default (EAD). Generally, these parameters are based on observed point-in-time and historical data obtained by international rating agencies, that maximize the use of objective non-judgmental variables and market data.

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.6 Impairment of financial assets (continued)**

*Forward-looking information*

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

*Presentation of impairment allowance*

For financial assets measured at amortized cost, impairment allowance is recognized as a loss allowance reducing the gross carrying amount of the financial assets in the balance sheet. For debt instruments measured at FVOCI, impairment allowance is recognized in other comprehensive income and does not reduce the carrying amount of the debt instruments in the balance sheet. The respective ECL for the above financial items is recognised within impairment losses.

*Write-off of financial assets*

Where the Company has no reasonable expectations of recovering a financial asset either in its entirety or a portion of it, the gross carrying amount of that instrument is reduced directly, partially or in full, against the impairment allowance. The amount written-off is considered as derecognized. Subsequent recoveries of amounts previously written off decrease the amount of the impairment losses in the income statement.

***Policy applicable before 1 January 2018***

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

(a) significant financial difficulty of 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;

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.6 Impairment of financial assets (continued)**

(f) it is becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

(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 and the amount of the loss is recognised in the profit or loss.

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

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

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

**2.7 Financial liabilities**

***Policy applicable from 1 January 2018***

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

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

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

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

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

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.7 Financial liabilities (continued)**

***Policy applicable before 1 January 2018***

The Company may classify 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 have two sub categories: financial liabilities held for trading and financial liabilities designated at fair value through profit or loss upon initial recognition.

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

(a) it eliminates or significantly reduces measurement or recognition inconsistencies; or

(b) financial liabilities share the same risks with financial assets and those risks are managed and evaluated on a fair value basis; or

(c) structured products containing embedded derivatives that could significantly modify the cash flows of the host contract.

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

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

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

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

**2.8 Cash and cash equivalents**

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

**2.9 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;

## Notes to the Financial Statements (continued)

**2. Accounting policies (continued)**

**2.9 Related party transactions (continued)**

(c) Directors of the Company and the 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.

**2.10 Income tax**

Income tax payable on profits is based on the applicable tax law and is recognised as an expense in the period.

**2.11 Share capital**

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

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

**2.12 Consolidation**

In accordance with Section 400 of the Companies Act 2006, group financial statements have not been prepared as the Company is a wholly owned subsidiary of Eurobank Ergasias S.A., which prepares consolidated statements which are publicly available.

**2.13 Adoption of IFRS 9**

The Company adopted IFRS 9 in 2018. The Standard's requirements were applied retrospectively by adjusting the Company's balance sheet on the date of transition on 1 January 2018. The Company applied the Standard's exemption not to restate comparative figures for prior periods, therefore the Company's 2017 comparatives are presented on an IAS 39 basis. The effect on the carrying amounts of financial assets and liabilities at the date of transition to IFRS 9 was recognised as an adjustment to opening retained earnings. The detailed effects of the adoption of IFRS 9 on 1 January 2018 are presented in note 2.13.1.

The IFRS 9 implementation program was monitored centrally by the Parent Company, which is committed to ensure a high quality implementation and ongoing application of IFRS 9 to ensure sound governance and internal control framework and formed the IFRS 9 accounting policies, key processes and process flows and the ECL methodologies.

**2.13.1 Transition to IFRS 9 impact**

Upon transition to IFRS 9, the Company has carried out a business model assessment for the financial assets held and a review of their contractual terms (SPPI assessment) to determine the changes to the classification and measurement. The assessment has been performed based on the facts and circumstances that existed at the date of initial application on 1 January 2018.

The impact of transitioning to IFRS 9 amounts to € 1,169 ths, which has been recognised as an opening balance adjustment at 1 January 2018 and it is attributed to the impairment for ECL of the deposits with banks carried at amortised cost with total gross amount of € 59,873 ths and allocated at Stage 1.

## Notes to the Financial Statements (continued)

### 2. Accounting policies (continued)

### 2.13 Adoption of IFRS 9 (continued)

The table below discloses the changes in the carrying amounts and the classifications of financial assets and financial liabilities upon transition to IFRS 9 as of 1 January 2018.

| | IAS 39 | | Remeasurement | IFRS 9 | |
|---|---|---|---|---|---|
| **Financial Assets** | Category<br>€ ths | Amount<br>€ ths | ECL<br>€ ths | Category<br>€ ths | Amount<br>€ ths |
| **Deposits with banks** | *Loans and receivables* | | | *Amortised cost* | |
| Closing balance 31.12.2017 | | 59,873 | | | |
| Remeasurement | | | (1,169) | | |
| **Opening balance 1.1.2018** | | **59,873** | **(1,169)** | | **58,704** |
| **Financial Liabilities** | | | | | |
| **Liabilities evidenced by paper at amortised cost** | *Amortised cost* | | | *Amortised cost* | |
| Closing balance 31.12.2017 | | 58,694 | | | |
| **Opening balance 1.1.2018** | | **58,694** | | | **58,694** |
| **Total IFRS 9 Impact** | | | **(1,169)** | | |

The table below presents the impact of transition to IFRS 9 to Retained earnings:

| | IFRS 9 Impact<br>€ ths |
|---|---|
| **Retained earnings** | |
| Closing balance under IAS 39 | 1,097 |
| Remeasurement under IFRS 9 ECL impairment | (1,169) |
| **Closing balance under IFRS 9** | **(72)** |

### 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 cash proceeds generated from the EMTN programmes are placed on deposits with the Parent Company. The aggregate carrying amount of these deposits approximates the maximum credit risk exposure of the Company. As at 31 December 2018 the credit **rating of the Parent Company was Caa2, according to Moody's (31 December 2017: Caa3). In March 2019, Moody's upgraded Eurobank to Caa1.**

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

- Interest rate risk: The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position 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.

## Notes to the Financial Statements (continued)

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

The interest rate risk is eliminated by placing funds on deposits with the Parent Company at rates which change on the same basis as the interest rates applied on loan notes.

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

(c) Liquidity Risk: The Company is not exposed to liquidity or cash flow risk because the maturity of its assets and liabilities match, and the underlying cash flows are substantially the same. The cash proceeds generated from the EMTN programmes are placed on deposits with the Parent Company, on the same terms and in the same currency.

The amounts disclosed in the table below are the contractual undiscounted cash flows of financial liabilities by remaining contractual maturities at the balance sheet date.

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Less than 1 month € ths | 1 - 3 months € ths | 3 months to 1 year € ths | Over 1 year € ths | Gross nominal inflow € ths |
| Financial liabilities: | | | | | |
| - Liabilities evidenced by paper | - | - | 911 | 34,490 | 35,401 |
| - Other liabilities | - | - | 93 | - | 93 |
| | - | - | 1,004 | 34,490 | 35,494 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Less than 1 month € ths | 1 - 3 months € ths | 3 months to 1 year € ths | Over 1 year € ths | Gross nominal inflow € ths |
| Financial liabilities: | | | | | |
| - Liabilities evidenced by paper | - | - | 50,131 | 10,306 | 60,436 |
| - Other liabilities | - | - | 63 | - | 63 |
| | - | - | 50,194 | 10,306 | 60,499 |

(d) Capital risk management: The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt. The Parent Company will provide support to the Company with the use of any means required, including a share capital increase. The Company is not subject to any external capital requirements except for the minimum requirement of an allotted share capital with a nominal value of at least £ 50,000, under the Companies Act 2006. The Company has not breached the minimum requirement.

**Fair value of financial assets and liabilities**

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

## Notes to the Financial Statements (continued)

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

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

Company's valuation processes

For determining the fair value of financial instruments that are not quoted in an active market, the Company uses quotes for identical financial instruments provided by Bloomberg, or widely recognized valuation models that use only observable market data and require little management estimation and judgment. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel of the Parent Company, independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect also the credit risk of the financial instrument and include adjustments to take into account the credit risk of the Parent Company, where appropriate.

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

## Notes to the Financial Statements (continued)

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

The assumptions and methodologies underlying the calculation of fair values of financial instruments are presented below. In particular, as at 31 December 2018 and 2017:

- For loan notes issued by the Company, the fair values are determined either based on quotes for identical debt securities in markets that are not active, or by using valuation techniques. In particular, for fixed rate loan notes prices are obtained from Bloomberg, while for the floating rate loan notes, prices are based on appropriate valuation models.
- Deposits with banks include long term fixed and floating rate deposits with the Parent Company, whose fair value is determined based on quotes and valuation models for the mirror loan notes, respectively.

**Financial instruments carried at amortised cost**

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:

| | 2018 | | | | |
|---|---|---|---|---|---|
| | Level 1 € ths | Level 2 € ths | Level 3 € ths | Fair Value € ths | Carrying amount € ths |
| Financial assets not carried at fair value: | | | | | |
| Deposits with the Parent Company | - | 31,754 | - | 31,754 | 32,194 |
| | - | 31,754 | - | 31,754 | 32,194 |
| Liabilities evidenced by paper at amortised cost | - | 31,754 | - | 31,754 | 33,202 |
| | - | 31,754 | - | 31,754 | 33,202 |

| | 2017 | | | | |
|---|---|---|---|---|---|
| | Level 1 € ths | Level 2 € ths | Level 3 € ths | Fair Value € ths | Carrying amount € ths |
| Financial assets not carried at fair value: | | | | | |
| Deposits with the Parent Company | - | 57,752 | - | 57,752 | 58,707 |
| | - | 57,752 | - | 57,752 | 58,707 |
| Liabilities evidenced by paper at amortised cost | - | 57,752 | - | 57,752 | 58,694 |
| | - | 57,752 | - | 57,752 | 58,694 |

### 4. Critical accounting estimates and judgment

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

### 4.1 Deposits with banks

The asset of the Company is deposits with the Parent Company. The directors' assessment of the recoverability of this asset is closely associated with the operations of the Parent Company and includes reviews of liquidity and solvency (see note 2.1 Going concern considerations and note 10).

## Notes to the Financial Statements (continued)

### 4.1 Deposits with banks (continued)

The ECL calculations for the Company's deposits with the Parent Company are outputs of models with a number of underlying assumptions regarding the choice of the input parameters i.e. the EAD, PDs, and LGDs. These parameters are determined based on market data provided by international rating agencies and are monitored and evaluated by Group's Market Risk Sector. A reasonably possible change in the PD used, by +1%/-1% would increase/decrease the total ECL charge by € 166ths.

### 4.2 Fair value of financial instruments

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

Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel of the Parent Company independent of the personnel that created them. All models are certified before they are used and are calibrated to ensure that outputs reflect actual data and comparative market prices.

The main assumptions and estimates, considered by management when applying a valuation model include:

(a) the likelihood and expected timing of future cash flows;
(b) the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate;
(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, 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.

### 4.3 Classification of financial assets

*Contractual cash flow characteristics test (SPPI test)*

The Company performs the SPPI assessment of financial instruments by considering all the features, which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Units when considering whether certain contractual features significantly affect future cash flows.

## Notes to the Financial Statements (continued)

### 5. Interest income

| | 2018 € ths | 2017 € ths |
|---|---|---|
| Interest income on deposits with the Parent Company | 1,691 | 2,690 |
| | **1,691** | 2,690 |

### 6. Interest expense and similar charges

| | 2018 € ths | 2017 € ths |
|---|---|---|
| Interest expense on liabilities evidenced by paper | **(1,657)** | (2,625) |
| Other interest payable on derivative financial instruments | - | (42) |
| | **(1,657)** | (2,667) |

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

| | 2018 € ths | 2017 € ths |
|---|---|---|
| Changes in fair value of liabilities evidenced by paper designated at FVTPL | - | 217 |
| Changes in fair value of derivative financial instruments managed with liabilities evidenced by paper | - | (217) |
| | - | - |

### 8. Operating expenses

| | 2018 € ths | 2017 € ths |
|---|---|---|
| Fees payable to the auditors for the statutory audit of the Company's annual financial statements and other assurance related services | **(48)** | (46) |
| EMTN update costs, tax services and other | **(91)** | (61) |
| | **(139)** | (107) |

The auditors' remuneration for the year ended 31 December 2018 has been agreed to be € 40,000 excluding VAT (2017: € 40,000 excluding VAT).

## Notes to the Financial Statements (continued)

### 9. Income tax

The standard rate of Corporation Tax in the UK from 1 January 2018 until 31 December 2018 was 19% (from 1 January until 31 March 2017 was 20% and from 1 April until 31 December 2017 was 19%).

Analysis of the Company's tax credit in the year and the reconciliation of effective tax rate:

| | **2018**<br>**€ ths** | 2017<br>€ ths |
|---|---|---|
| Profit/(Loss) before income tax | **55** | (85) |
| **Current tax** | | |
| Adjustments in respect of prior years [1] | - | (1) |
| Tax credit | - | (1) |

[1] *Foreign exchange revaluation included.*

The Company's profit for the year ended 31 December 2018 is attributed to the ECL reversal, calculated for the deposits with the Parent Company, which is not taxable according to UK tax law. As a result, there was no tax obligation for the year ended 31 December 2018, as well as for 2017 since the Company had recorded losses.

The Company has not recognized deferred tax assets on cumulative losses, as it has not assessed whether future taxable profits will be available against which these losses can be utilized.

### 10. Deposits with banks

| | **2018**<br>**€ ths** | 2017<br>€ ths |
|---|---|---|
| **Deposits with the Parent Company at amortised cost** | | |
| *Gross Carrying amount* | **34,305** | 59,873 |
| *Cumulative 12-month ECL allowance* | **(1,008)** | - |
| **Total carrying amount** | **33,297** | 59,873 |
| Maturing over 1 year | **32,129** | 9,800 |
| With original maturity of less than 90 days (cash and cash equivalents) | **1,103** | 1,166 |

Deposits with the Parent Company are on a rolling basis and earn interest at a margin above the relevant currency floating or fixed rates payable on loan notes.

As a result of the transition to IFRS 9, the Company recognised for its deposits with the Parent Company expected credit losses of € 1,169 ths. During the year ended 31 December 2018, the ECL adjustment decreased by € 161 ths, € totalling to 1,008 ths, due to the improvement of the credit quality of the Parent Company, as well as the maturity of loan notes (note 11) and the subsequent decrease of the Company's deposits.

**Post balance sheet event**

As at 30 June 2019, the ECL adjustment for the Company's deposits with the Parent Company further decreased by € 292 ths and amounted to € 716 ths.

## Notes to the Financial Statements (continued)

### 11. Liabilities evidenced by paper at amortised cost

| | Interest rate % | Currency | Maturity Date | 2018 Face amount € ths | 2018 Carrying amount € ths | 2017 Face amount € ths | 2017 Carrying amount € ths |
|---|---|---|---|---|---|---|---|
| | 4.25 | EUR | 26/6/2018 | - | - | 47,889 | 48,887 |
| Fixed rate loan notes | 3.00 | EUR | 28/6/2021 | 7,500 | 7,502 | - | - |
| | 3.00 | EUR | 17/5/2021 | 15,838 | 15,893 | - | - |
| | 6M Euribor plus 2.5 | EUR | 19/6/2020 | 3,800 | 3,803 | 3,800 | 3,803 |
| Floating rate loan notes | 6M Euribor plus 2.5 | EUR | 20/6/2022 | 1,200 | 1,201 | 1,200 | 1,201 |
| | 6M Euribor plus 2.25 | EUR | 21/12/2021 | 4,800 | 4,803 | 4,800 | 4,803 |
| | | | | 33,138 | 33,202 | 57,689 | 58,694 |

The loan notes currently issued are on an unsubordinated basis, are listed on the Luxembourg Stock Exchange and carry interest at relevant currency floating rates plus an additional margin or at fixed rates. Under the programme for issuance of debt instruments, loan notes are unconditionally and irrevocably guaranteed by the Parent Company on a subordinated or an unsubordinated basis, as specified in the relevant Final Terms.

The Company has not had any defaults on principal, interest or any other breaches with respect to its liabilities during 2018 and 2017.

During the year, the Company proceeded with the issue of loan notes of nominal value € 23,338 ths.

In addition, during the year, loan notes of nominal value € 47,889 ths matured.

### 12. Income tax payable and other liabilities

| | 2018 € ths | 2017 € ths |
|---|---|---|
| Corporation tax (receivable)/payable | - | (4) |
| Other liabilities | 93 | 67 |
| | 93 | 63 |

### 13. Share capital

| | 2018 Number | 2018 £ ths | 2017 Number | 2017 £ ths |
|---|---|---|---|---|
| Authorised ordinary shares of £1 each | 50,000 | 50 | 50,000 | 50 |
| Issued, allotted and paid up at 25p per ordinary share of £1 each | 50,000 | 13 | 50,000 | 13 |

The paid up share capital of £ 12,500 is reflected in the financial statements as € 19,216 based on the prevailing exchange rate at 31 December 2002 (€/£ 0.6505) being the date the Company changed its functional and reporting currency from sterling to Euros.

### 14. Related party transactions

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

As at 31 December 2018, the percentage of the Bank's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) stood at 2.38%.

## Notes to the Financial Statements (continued)

### 14. Related party transactions (continued)

The HFSF is considered to have significant influence over the Bank pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) the Bank has entered into with the HFSF.

Further information in respect of the HFSF rights based on the aforementioned framework is provided in the section "Report of the Directors and Corporate Governance Statement" of the Annual Financial Report of the Parent Company for the year ended 31 December 2018.

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 2018 | | 31 December 2017 | |
|---|---|---|---|---|
| | Parent Company € ths | Parent Company's subsidiaries € ths | Parent Company € ths | Parent Company's subsidiaries € ths |
| Deposits with Banks | 33,297 | - | 59,873 | - |
| Liabilities evidenced by paper at amortised cost | - | 9,807 | - | 9,807 |
| Interest and similar income | 1,691 | - | 2,690 | - |
| Interest expense and similar charges | 26 | 209 | 42 | 63 |

Emoluments of directors

The directors provide services to a number of Group companies for which are compensated by the Parent Company. Accordingly, these financial statements include no emoluments in respect of any director as it is not practicable to apportion the salary element. The Company employed no staff during 2018 and 2017.

As at 31 December 2018 there is no loan note held by key management personnel (2017: nil ths).

### 15. Segmental reporting

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

### 16. Dividends

No dividend was paid in 2018 and there is no subsequent decision of the Board of Directors for distribution of dividend (2017: nil ths).