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ERB NEW EUROPE FUNDING III LIMITED

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Report and financial statements

31 December 2012

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Board of Directors and Other Officers

Board of Directors

M. Louis
D. Shacallis
C. Kokologiannis (resigned on 14 May 2014)
E. Giannopoulou (resigned on 2 May 2012)
S. Psychogyios (appointed on 14 May 2014)

Company Secretary

D. Shacallis

Independent auditors

PricewaterhouseCoopers Ltd
Julia House
3 Themistocles Dervis Street
1066 Nicosia
Cyprus

Registered office

41 Arch. Makariou III Avenue
1065 Nicosia
Cyprus

Report of the Board of Directors

The Board of Directors presents its report together with the audited financial statements of ERB NEW EUROPE FUNDING III LIMITED for the year ended 31 December 2012.

Principal activities

The principal activities of the Company are to invest into debt and equities securities and into portfolio of loans, both performing and non performing, granted to Ukrainian clients originated by Eurobank Ergasias S.A. subsidiary in Ukraine.

Change of the Company's name

At the Extraordinary General Meeting of the shareholders of the Company which was held on 31 January 2013 it was resolved that the Company's name would change from EFG NEW EUROPE FUNDING III LIMITED to ERB NEW EUROPE FUNDING III LIMITED. The new name has been registered with the Registrar of Companies on 20 March 2013.

Review of developments, position and performance of the Company's business

The main financial highlights for the year are as follows:

	2012	Period from 25 November 2010 to 31 December 2011
	€	€
Operating income/ (loss)	**2.420.084**	(2.934.761)
Operating expenses including Impairment losses on loans and advances	**(12.940.408)**	(5.216.181)
Loss from operations before taxation	**(10.520.304)**	(8.150.942)
Net loss for the period	**(10.724.183)**	(8.371.674)

	2012	2011
	€	€
Loans and advances to customers	**43.634.209**	62.240.207
Available-for-sale financial assets	**176.904.798**	-
Debt securities lending portfolio	**4.225.132.848**	5.474.989.472
Held-to-maturity investments	**-**	673.295.460
Total assets	**4.453.347.441**	6.215.876.339

Business environment, strategy and future outlook

During 2012 the Company transferred its entire portfolio of Greek government bonds to Eurobank Ergasias S.A. (the ultimate parent company) as part of its participation in greek government bonds exchange program (PSI+; Private Sector Involvement). Due to the lien agreement with Eurobank Ergasias S.A. (for details refer to Note 20) the Company incurred no loss from the above transaction.

During 2012 the Company acquired from Eurobank Cyprus, a group related company, available for sale portfolio of €176 million approximately, consisting of government and corporate bonds also under a lien agreement with Eurobank Ergasias S.A.

Report of the Board of Directors (cont'd)

In February 2012, in the context of a group reorganization, the Company acquired a 100% shareholding of ERB Hellas (Cayman Islands) Ltd, a group related company incorporated in the Cayman islands.

Net loss for the period is mainly driven by significant impairment losses for Loans and advances to customers (a portfolio of loans to Ukrainian clients originated by Eurobank Ergasias S.A. subsidiary in Ukraine).

The Bank of Greece, after assessing the business plan and the capital needs of Eurobank Ergasias S.A. has concluded on 19 April 2012 that Eurobank Ergasias S.A. is a viable bank and, on 8 November 2012, notified Eurobank Ergasias S.A. that its Tier I capital should increase by €5.839 million. Eurobank Ergasias S.A., the HFSF and the European Financial Stability Facility (EFSF) signed on 28 May 2012, on 21 December 2012 and on 30 April 2013 a trilateral presubscription agreement (PSA) for the advance to Eurobank Ergasias S.A. of EFSF notes of face value of €3.970 million, €1.341 million and €528 million, respectively, (total €5.839 million), as advance payment of its participation in the share capital increase of Eurobank Ergasias S.A.

On 30 April 2013, the Extraordinary General Meeting approved the increase of the share capital of the Eurobank Ergasias S.A., in accordance with the provisions of Law 3864/2010 and Act of Cabinet 38/9.11.2012, in order to raise € 5,839 million by issuing 3,789,317,358 new ordinary shares, covered entirely by the HFSF with the contribution of bonds issued by the EFSF and owned by the HFSF. The capital increase was certified on 31 May 2013 and the listing of the new shares was completed on 19 June 2013 after obtaining the relevant approvals from Greek regulatory authorities.

On 14 November 2013, Eurobank Ergasias S.A. announced the initiation of the process to raise approximately € 2 bn through a capital increase. On 14 January 2014, Eurobank Ergasias S.A. and the Hellenic Financial Stability Fund (HFSF) announced that the transaction timetable will be adjusted to allow for the finalization of the assessment of forward looking capital needs of the Greek banking sector and the new recapitalization framework.

On 8 April 2014, the BoG following a) the assessment of Eurobank's capital needs amounting to € 2,945 million under the baseline scenario, concluded on 6 March 2014 and b) the capital enhancement plan submitted by the Bank on 24 March 2014, whereby the Bank: i) revised its capital actions providing for an additional positive impact on regulatory capital of € 81 million and proposed to adjust the restructuring plan accordingly and ii) stated that it intends to cover the remaining capital needs through a share capital increase, notified the Bank that its Core Tier I capital should increase by € 2,864 million.

On 12 April 2014, the Extraordinary Shareholders' General Meeting approved the increase of the share capital of the Bank up to € 2,864 million through payment in cash or/and contribution in kind, the cancellation of the preemption rights of the Bank's ordinary shareholders, including HFSF, and the only preference shareholder, namely the Greek State, and the issuance of up to 9,546,666,667 new ordinary registered shares, of a nominal value of € 0,30 each. The proceeds will be used to increase the Tier I Capital according to 8 April 2014 resolution of the BoG.

On 29 April 2014, the Bank announced that both the public offering of new ordinary registered shares to the public in Greece and the private placement of new ordinary registered shares to investors outside Greece were oversubscribed. The new shares have been listed on the main

Report of the Board of Directors (cont'd)

market of the Athens Exchange and their trading commenced on 9 May 2014. The successful completion of the Bank's capital increase constitutes a step towards further strengthening its capital position and enhances its ability to support the Greek economy.

As at 30 June 2014, the Common Equity Tier I ratio of Eurobank Ergasias S.A. (proforma with the implementation of Basel III IRB credit risk methodology to New TT Hellenic Postbank's (NHPB) mortgage portfolio and the disposal of Ukrainian operations) stood at 17,8%, well above the statutory limit.

The European Central Bank (ECB), in the context of preparation of the Single Supervisory Mechanism (SSM) is currently conducting a comprehensive assessment comprising of a supervisory risk assessment, asset quality review (AQR) and stress test. The comprehensive assessment encompasses the Eurozone's most significant banks and is carried out jointly with national competent authorities (NCAs) and European Banking Authorities (EBA). Upon publication of the results in the second half of October 2014, banks facing a capital shortfall will be requested to submit capital plans within a period of two weeks, which will then be evaluated by SSM. Banks will be expected to cover shortfalls arising from the AQR, or the baseline scenario of the stress test within six months and shortfalls arising from the adverse scenario of the stress test within nine months.

The Company considers risk management to be a major process and a major factor contributing to the stability of the Company's performance. The financial risks which are managed and monitored are credit risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 4 of the financial statements.

The ultimate parent entity Eurobank Ergasias S.A. has confirmed its current policy as being one of continued financial support for the Company and its intention to continue this support to enable the Company to perform its operations in the foreseeable future.

Results

The Company's results for the year are set out on page 8. The net loss for the period is carried forward.

Share capital

There were no changes in the share capital of the Company during the year under review.

Board of Directors

The members of the Company's Board of Directors at 31 December 2012 and at the date of this report are presented on page 1.

Branches

The Company did not operate through any branches during the accounting period.

Report of the Board of Directors (cont'd)

Events after the balance sheet date

Following the period end, 'Debt securities lending portfolio' has been significantly decreased (stands at €1.194 million as of 31.3.2014) with a corresponding decrease in 'Loans payable'.

During January - April 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. The situation in Ukraine is further jeopardized after capture of Crimean Parliament and Government buildings by unnamed armed forces followed by replacement of local Government, growing presence of Russian armed forces in Crimea, decision taken by Crimean parliament on joining the Russian Federation and signing the agreement between the Russian Federation and the Republic of Crimea on the accession of the Republic of Crimea to the Russian Federation on 18 March 2014.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on Ukrainian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. As such, actual losses from impairment of financial assets may differ from the current level of impairment provisions.

Borrowers of the Bank may be adversely affected by the deteriorated financial and economic environment, including devaluation of the Ukrainian Hryvnia. As all loans to customers were issued in foreign currencies, UAH depreciation against these currencies could have a significant impact on borrowers' ability to service the loans. Management currently tests loans for impairment with due consideration of the above risk factors.

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the overall situation in the Ukraine economy, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

In March 2014, Eurobank's management committed to a plan to sell the Group's operations in Ukraine (including the Ukrainian portfolio booked in ERB New Europe Funding III). The sale was considered highly probable, therefore, the Group's operations in Ukraine were classified as a disposal group held for sale.

On 14 August 2014, Eurobank entered into an agreement with entities of the Ukrainian Delta Bank Group for the disposal of its Ukrainian subsidiary "Public J.S.C. Universal Bank". The agreement also assumed the transfer of other Ukrainian assets (including the Ukrainian loan portfolio held in ERB New Europe Funding III) under a discount to the loan portfolio net book value implying impairment. The transaction was subject to the necessary approvals by the competent authorities as well as conditions relating to the political and economic situation in Ukraine.

On 23 September 2014, Eurobank Ergasias S.A. announced that the appropriate approvals have not been provided in order for the aforementioned transaction to be completed. Consequently, Eurobank Ergasias S.A. decided to terminate the agreement with the Delta Bank Group.

Report of the Board of Directors (cont'd)

Events after the balance sheet date (cont'd)

Eurobank's management remains committed to the aforementioned plan hence classification of operations in Ukraine as a disposal group held for sale in the Group's consolidated financial statements has not been altered.

Independent Auditors

The Independent Auditors, PricewaterhouseCoopers Ltd, have expressed their willingness to continue in office. A resolution giving authority to the Board of Directors to fix their remuneration will be proposed at the Annual General Meeting.

By Order of the Board

Demetris Shacallis
Director

Nicosia, 4 November 2014

Independent auditor's report
To the Members of ERB New Europe Funding III Limited

Report on the financial statements

We have audited the accompanying financial statements of ERB New Europe Funding III Limited (the "Company"), which comprise the balance sheet as at 31 December 2012, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of ERB New Europe Funding III Limited as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113.

Report on other legal requirements

Pursuant to the additional requirements of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account, so far as appears from our examination of these books.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Cyprus Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors is consistent with the financial statements.

Other matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 34 of the Auditors and Statutory Audits of Annual and Consolidated Accounts Laws of 2009 and 2013 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Androulla S Pittas
Certified Public Accountant and Registered Auditor
for and on behalf of

PricewaterhouseCoopers Limited
Certified Public Accountants and Registered Auditors

Nicosia, 4 November 2014

Income statement
for the year ended 31 December 2012

	Note	2012 €	Period from 25 November 2010 to 31 December 2011 €
Interest income	5	129.129.003	191.678.882
Interest expense	6	(89.566.499)	(172.823.420)
Net interest income		39.562.504	18.855.462
Fee and commission income		906.678	1.129.759
Fee and commission expense	20	(39.544.314)	(20.911.145)
Net fee and commission income		(38.637.636)	(19.781.386)
Gains less losses from investment securities		1.034.620	(1.023.185)
Net trading gain/(loss)	7	460.596	(1.180.138)
Other income		-	194.486
Operating income/ (loss)		2.420.084	(2.934.761)
Impairment losses on loans and advances	11	(12.881.803)	(5.149.316)
Operating expenses	8	(58.605)	(66.865)
Loss from operations before taxation		(10.520.324)	(8.150.942)
Income tax	9	(203.859)	(220.732)
Net loss for the year/ period		(10.724.183)	(8.371.674)

The notes on pages 14 to 52 form part of these financial statements.

ERB NEW EUROPE FUNDING III LIMITED

Statement of Comprehensive Income
for the year ended 31 December 2012

	2012	Period from 25 November 2010 to 31 December 2011
	€	€
Net loss for the year/ period	(10,724,183)	(8,371,674)
Other comprehensive income:		
Available-for-sale financial assets (Note 12)		
Net changes in fair values	322,333	-
Total comprehensive loss for the year/ period	(10,401,850)	(8,371,674)

The notes on pages 14 to 52 form part of these financial statements.

ERB NEW EUROPE FUNDING III LIMITED

Statement of Financial Position
at 31 December 2012

	Note	2012	2011 €
Assets			
Cash at bank		161.259	38.394
Derivative financial instruments	10	8.334	87.560
Loans and advances to customers	11	43.634.209	62.240.207
Available-for-sale financial assets	12	176.904.798	-
Debt securities lending portfolio	13	4.225.132.848	5.474.989.472
Held-to-maturity investments	14	-	673.295.460
Investments in subsidiaries	15	670.000	-
Other assets	16	6.835.993	5.225.246
Total assets		4.453.347.441	6.215.876.339
Equity and liabilities			
Equity			
Ordinary share capital	17	1.100	1.100
Share premium	17	18.900	18.900
Other reserves	12	322.333	-
Retained earnings		(19.095.857)	(8.371.674)
Total equity		(18.753.524)	(8.351.674)
Liabilities			
Loans payable	18	4.467.954.193	6.180.042.765
Derivative financial instruments	10	8.337	39.637.403
Other liabilities	19	4.138.435	4.547.845
Total liabilities		4.472.100.965	6.224.228.013
Total liabilities and equity		4.453.347.441	6.215.876.339

On 4 November 2014 the Board of Directors of ERB New Europe Funding III Limited authorized these financial statements for issue.

S. Psychogyios, Director

D. Shacallis, Director

The notes on pages 14 to 52 form part of these financial statements.

ERB NEW EUROPE FUNDING III LIMITED

Statement of Changes in Equity
for the year ended 31 December 2012

	Share capital €	Share premium €	Available-for-sale revaluation reserve €	Retained earnings €	**Total €**
Issue of share capital	1.100	18.900	-	-	**20.000**
Net loss for the period	-	-	-	(8.371.674)	**(8.371.674)**
Balance at 31 December 2011/ 1 January 2012	**1.100**	**18.900**	**-**	**(8.371.674)**	**(8.351.674)**
Net loss for the year	-	-	-	**(10.724.183)**	**(10.724.183)**
Other comprehensive income for the year	-	-	**322.333**	-	**322.333**
Balance at 31 December 2012	**1.100**	**18.900**	**322.333**	**(19.095.857)**	**(18.753.524)**

The notes on pages 14 to 52 form part of these financial statements.

Statement of Cash Flows
for the year ended 31 December 2012

	2012	Period from 25 November 2010 to 31 December 2011
Cash flows from operating activities		
Loss for the year/period before taxation	(10.520.324)	(8.150.942)
Adjustments for:		
Impairment losses on loans and advances	12.881.803	5.149.316
Foreign exchange adjustments on Debt securities lending portfolio	4.227.903	(7.892.700)
Foreign exchange adjustments on AFS portfolio	(174.843)	-
Change in fair value due to hedging on Debt securities lending portfolio	23.767.661	(23.767.661)
Interest and amortisation of premium/ discount on AFS portfolio	(107.857)	-
Interest, amortisation of premium/ discount & inflation linked bonds adjustment on Debt securities lending portfolio	(93.492.458)	(151.769.557)
Adjustment due to fair value hedging discontinuance on Debt securities lending portfolio	43.600.884	(45.922.977)
Amortisation of adjustment due to fair value hedging discontinuance on Debt securities lending portfolio	-	485.328
Interest and amortisation of premium/ discount on Held-to-maturity investments	-	(19.350.997)
Cash flows from/(used in) operations before working capital changes	(19.817.231)	(251.220.190)
Net increase/(decrease) in Derivative financial instruments	(39.549.840)	39.549.843
Net (increase)/decrease in Loans and advances to customers	5.724.194	(67.389.523)
Net (increase)/decrease in Other assets	(1.610.747)	(5.225.246)
Net increase/(decrease) in Other liabilities	(409.410)	4.547.845
Net increase/(decrease) in accrued interest on Loans payable	(41.191.002)	52.167.467
Cash flows from/(used in) operations	(96.854.036)	(227.569.804)
Tax paid	(203.859)	(220.732)
Net cash flows from/(used in) operating activities	(97.057.895)	(227.790.536)
Cash flows from/(used in) investing activities		
Purchases of Available-for-sale financial assets	(176.299.765)	-
Purchases and redemptions of Debt securities lending portfolio	1.271.752.634	(5.246.121.904)
Purchases and redemptions of Held-to-maturity investments	673.295.460	(653.944.463)
Investments in subsidiaries	(670.000)	-
Net cash flows from/(used in) investing activities	1.768.078.329	(5.900.066.367)
Cash flows from/(used in) financing activities		
Proceeds from issue of ordinary shares	-	20.000
Proceeds from / Repayments of Loans payable	(1.670.897.569)	6.127.875.298
Net cash flows from financing activities	(1.670.897.569)	6.127.895.298
Net increase in cash and cash equivalents	122.865	38.394
Cash and cash equivalents at beginning of period	38.394	-
Cash and cash equivalents at end of period	161.259	38.394

For the purposes of the cash flow statement, cash and cash equivalents comprise exclusively by Cash at bank, which has less than 90 days maturity.

The notes on pages 14to 52 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2012

1 General

ERB NEW EUROPE FUNDING III LIMITED was registered in Cyprus on 25 November 2010 as a private limited liability Company in accordance with the provisions of the Cyprus Companies Law, Cap. 113. Its registered office is at 41 Arch. Makariou III Avenue, 1065, Nicosia, Cyprus. As at 31 December 2012 Eurobank Ergasias S.A. owns indirectly 100% of ERB New Europe Funding III through its 100% subsidiary NEU Property Holdings Ltd.

Principal activities

The principal activities of the Company are to invest into debt and equities securities and into portfolio of loans, both performing and non performing, granted to Ukrainian clients originated by Eurobank Ergasias S.A. subsidiary in Ukraine.

Change of the Company's name

At the Extraordinary General Meeting of the shareholders of the Company which was held on 31 January 2013 it was resolved that the Company's name would change from EFG NEW EUROPE FUNDING III LIMITED to ERB NEW EUROPE FUNDING III LIMITED. The new name has been registered with the Registrar of Companies on 20 March 2013.

2 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the IASB, as endorsed by the European Union (the 'EU') and the requirements of the Cyprus Companies Law, Cap.113. In particular with those IFRSs and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these financial statements.

The policies set out below have been consistently applied to the years 2012 and 2011.

2.2 Going concern basis

Financial statements are prepared on the principle of going concern which implies that the Company will continue operations in the foreseeable future. The Company has shown negative capital for the period however the directors of the Company have the support of the ultimate parent company Eurobank Ergasias S.A. The ultimate parent company has confirmed the continuing support, which includes possibilities to refinance existing borrowings and receive additional borrowings so that to ensure that the Company will continue operations in the foreseeable future. In making its assessment of the Company's ability to continue as a going concern, the directors have taken into consideration the impact of the position of the Group:

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.2 Going concern basis (cont'd)

Eurobank Ergasias S.A. share capital increase

On 14 November 2013, Eurobank Ergasias S.A. announced the initiation of the process to raise approximately € 2 bn through a capital increase. On 14 January 2014, Eurobank Ergasias S.A. and the Hellenic Financial Stability Fund (HFSF) announced that the transaction timetable will be adjusted to allow for the finalization of the assessment of forward looking capital needs of the Greek banking sector and the new recapitalization framework.

On 8 April 2014, the BoG following a) the assessment of Eurobank's capital needs amounting to € 2,945 million under the baseline scenario, concluded on 6 March 2014 and b) the capital enhancement plan submitted by the Bank on 24 March 2014, whereby the Bank: i) revised its capital actions providing for an additional positive impact on regulatory capital of € 81 million and proposed to adjust the restructuring plan accordingly and ii) stated that it intends to cover the remaining capital needs through a share capital increase, notified the Bank that its Core Tier I capital should increase by € 2,864 million.

On 12 April 2014, the Extraordinary Shareholders' General Meeting approved the increase of the share capital of the Bank up to € 2,864 million through payment in cash or/and contribution in kind, the cancellation of the preemption rights of the Bank's ordinary shareholders, including HFSF, and the only preference shareholder, namely the Greek State, and the issuance of up to 9,546,666,667 new ordinary registered shares, of a nominal value of € 0,30 each. The proceeds will be used to increase the Tier I Capital according to 8 April 2014 resolution of the BoG.

On 29 April 2014, the Bank announced that both the public offering of new ordinary registered shares to the public in Greece and the private placement of new ordinary registered shares to investors outside Greece were oversubscribed. The new shares have been listed on the main market of the Athens Exchange and their trading commenced on 9 May 2014. The successful completion of the Bank's capital increase constitutes a step towards further strengthening its capital position and enhances its ability to support the Greek economy.

As at 30 June 2014, the Common Equity Tier I ratio of Eurobank Ergasias S.A. (proforma with the implementation of Basel III IRB credit risk methodology to New TT Hellenic Postbank's (NHPB) mortgage portfolio and the disposal of Ukrainian operations) stood at 17,8%, well above the statutory limit.

The European Central Bank (ECB), in the context of preparation of the Single Supervisory Mechanism (SSM) is currently conducting a comprehensive assessment comprising of a supervisory risk assessment, asset quality review (AQR) and stress test. The comprehensive assessment encompasses the Eurozone's most significant banks and is carried out jointly with national competent authorities (NCAs) and European Banking Authorities (EBA). Upon publication of the results in the second half of October 2014, banks facing a capital shortfall will be requested to submit capital plans within a period of two weeks, which will then be evaluated by SSM. Banks will be expected to cover shortfalls arising from the AQR, or the baseline scenario of the stress test within six months and shortfalls arising from the adverse scenario of the stress test within nine months.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.2 Going concern basis (cont'd)

The Company considers risk management to be a major process and a major factor contributing to the stability of the Company's performance. The financial risks which are managed and monitored are credit risk, market risk and liquidity risk. Detailed information relating to risk management is set out in Note 4 of the financial statements.

2.3 Adoption of new and revised International Financial Reporting Standards

(a) Amended and new standards and interpretations effective in 2012 for EU
- IFRS 7, Amendment – Disclosures, Transfers of Financial Assets

(b) Standards and interpretations issued but not yet effective for EU
- IAS 1, Amendment - Presentation of Items of Other Comprehensive Income (effective 1 January 2013)
- IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets (effective 1 January 2013)
- IAS 19, Amendment - Employee Benefits (effective 1 January 2013)
- IAS 27, Amendment - Separate Financial Statements (effective 1 January 2014)
- IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2014)

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.3 Adoption of new and revised International Financial Reporting Standards (cont'd)

- IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
- IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013)
- IFRS 9, Financial Instruments (effective 1 January 2018, not yet endorsed by EU)
- IFRS 9 and IFRS 7, Amendment - Mandatory Effective Date and Transition Disclosures (effective 1 January 2015, not yet endorsed by EU)
- IFRS 10, Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11, Joint Arrangements (effective 1 January 2014)
- IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2014)
- IFRS 13, Fair Value Measurement (effective 1 January 2013)
- IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective 1 January 2013, not yet endorsed by EU)
- Annual Improvements to IFRSs 2009–2011 Cycle (effective 1 January 2013, not yet endorsed by EU)
- IFRS 10, 12 and 27 Amendments - Investment Entities (effective 1 January 2014, not yet endorsed by EU)

IFRS 9 is part of IASB's project to replace IAS 39 Financial Instruments which has not been finalised yet and as a result, it is not practicable to quantify its impact. The application of the other above mentioned standards and interpretations is not expected to have a material impact on the Company's financial statements in the period of the initial application.

The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and of financial assets and financial liabilities (including derivative instruments) at fair-value-through-profit-or-loss.

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

2.4 Investments in subsidiaries

Investments in subsidiaries are accounted at cost less any impairment losses. The Company, which is a member of the Eurobank Group controlled by Eurobank Ergasias S.A., a listed entity in Greece, has used the exemption offered by IAS27 "Consolidated and Separate Financial Statements" paragraph 10 and did not prepare consolidated financial statements. Preparation of consolidated financial statements was not required due to the availability of the consolidated financial statements of Eurobank Ergasias S.A. into which the results and financial position of the Company are consolidated. This is also in compliance with the Cyprus Companies Law Cap.113.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.5 Foreign currency translation

(1) **Functional and presentation currency**
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro (€) which is the Company's functional and presentation currency.

(2) **Transactions and balances**
Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency 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 and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.6 Derivative financial instruments and hedging activities

Derivative financial instruments, including foreign exchange contracts, forward currency agreements and interest rate options (both written and purchased), currency and interest rate swaps and other derivative financial instruments are initially recognised in the balance sheet at fair value on the date on which the derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices, including recent market transactions, discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

Certain derivatives, embedded in other financial instruments, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated and qualifies as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as hedges of the exposure to changes in the fair value of recognised assets or liabilities or unrecognised firm commitments (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.6 Derivative financial instruments and hedging activities (cont'd)

The Company documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged item for which the effective interest method is not used remains until the disposal of the equity security.

(ii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement. The fair values of derivative instruments held for trading and used for hedging purposes are disclosed in Note 10.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.7 Interest income and expense

Interest income and expenses for all interest-bearing financial instruments are recognised within "interest income" and "interest expense" in the income statement on an accruals basis, using the effective interest rate method.

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

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

2.8 Fee and commissions

Fees and commissions are generally recognised in the income statement on an accruals basis.

2.9 Financial assets and liabilities

2.9.1 Financial assets

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

(i) 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 and those that the Company upon initial recognition designates as available-for-sale. Securities classified in this category are presented in Investment Securities under Debt Securities Lending portfolio.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.9 Financial assets and liabilities (cont'd)

2.9.1 Financial assets (cont'd)

(ii) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

(iii) Available-for-sale

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

(iv) Accounting treatment

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

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

2.9.2 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Company tests control to ensure that continuing

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.9 Financial assets and liabilities (cont'd)

2.9.2 Derecognition (cont'd)

involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Company under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Company retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a portion of the risks.

2.10 Impairment of financial assets

The Company assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the 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 assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
- adverse changes in the payment status of borrowers in the portfolio; or
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.10 Impairment of financial assets (cont'd)

(i) Assets carried at amortised cost

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held to maturity investments 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 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 income statement. If a loan or held-to-maturity investment 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.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.10 Impairment of financial assets (cont'd)

(i) Assets carried at amortised cost (cont'd)

loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. Impairment charges relating to loans and advances to customers are classified in "impairment losses on loans and advances".

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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

(ii) Available-for-sale assets

In case of equity and debt investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity investments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.11 Financial liabilities

The Company measures its financial liabilities at amortised cost. Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

2.12 Trade payables

Trade payables are initially recognised at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

2.13 Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognised in the financial statements, unless they are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

2.14 Taxation

(i) Current income tax

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense for the period in which profits arise.

The tax effects of income tax losses available for carry forward are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

(ii) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised when it is probable that future taxable profit will be available against which these temporary differences can be utilised.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Notes to the financial statements for the year ended 31 December 2012

2 Principal accounting policies (cont'd)

2.14 Taxation (cont'd)

(ii) Deferred income tax (cont'd)

Deferred tax related to items recognised in other comprehensive income, is also recognised in the other comprehensive income and subsequently in the income statement together with the deferred gain or loss.

2.15 Provisions

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

2.16 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.17 Related party transactions

Related parties include associates, fellow subsidiaries, directors and key management personnel, their close families, companies owned or controlled by them and companies whose financial and operating policies they can influence. 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 on an arm's length basis.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash at bank and bank overdrafts.

2.19. Share capital

Ordinary shares are classified as equity.

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

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares. Share premium account can only be resorted to for limited purposes, and is otherwise subject to the provisions of the Cyprus Companies Law on reduction of share Capital.

Notes to the financial statements for the year ended 31 December 2012

3 Critical accounting estimates and judgments

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

(a) Impairment losses on loans and advances

The Company reviews its loan portfolios to assess impairment continuously. In determining whether an impairment loss should be recorded in the statement of income, the Company makes judgments as to whether there is any observable data indicating there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Company. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Fair value of financial instruments

The fair value of financial instruments that are not quoted in an active market are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel 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. To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Initial recognition of acquisition of debt securities lending, held to maturity and available-for-sale portfolio from group entities

The Company acquired the entire portfolio of debt securities lending, held to maturity investments and available-for-sale from Group companies and at the same time the ultimate parent company Eurobank Ergasias S.A provided a credit enhancement to the Company in the form of a lien arrangement in relation to these debt securities.

Notes to the financial statements for the year ended 31 December 2012

3 Critical accounting estimates and judgments (cont'd)

(c) Initial recognition of acquisition of debt securities lending and held to maturity portfolio from group entities (cont'd)

The consideration paid by the Company to group entities for the acquisition of these debt securities consisted of the fair value of the securities acquired as well as a consideration for the fair value of the financial guarantee provided by the ultimate parent company in relation to these securities.

As both transactions, the acquisition of the debt securities from group companies and the provision of the financial guarantee by the ultimate parent company were entered into at the same time and in contemplation of one another, the management has concluded that it would be more appropriate on initial recognition to recognise the fair value of the financial guarantee as a single asset together with the underlying debt securities it relates to and classified as debt securities lending, held to maturity investments and available-for-sale portfolio as this would reflect the commercial substance of the transactions. As a result, the subsequent measurement of the financial guarantee forming part of these securities has been amortised on the same basis as the underlying debt securities it relates to and has been reported as an adjustment to interest income.

Had the two transactions not been treated as a single transaction, the Company would have recognised the debt securities and the financial guarantee as two separate assets and would reported these separately. The debt securities would have been reported at their fair value on initial recognition and the financial guarantee would have been recognised as a prepayment asset which would be amortised over the life of the guarantee which is equivalent to the expected life of the guaranteed debt instruments. The financial guarantee asset would be tested for impairment under IAS36 and the amortisation and potential impairment charges would be accounted for as a reduction of interest income. However, no P&L impact would have been reported for the period due to the presentation of two separated assets.

(d) Tax

The Company is subject to income tax in Cyprus. In order to establish the current and deferred tax, as presented in the Statement of Financial Position, significant assumptions are required. For specific transactions and calculations the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management

4.1 Use of financial instruments

By their nature the Company's activities are principally related to the use of financial instruments including derivatives.

4.2 Financial risk factors

The Company is exposed to a variety of financial risks: credit risk, market risk (including currency risk and interest rate risk) and liquidity risk. The Company's overall risk management policies focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the Company's financial performance, financial position and cash flows.

4.2.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Impairment provisions are recognised for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration in the Company's portfolio, could result in losses that are different from those provided for at the balance sheet date. Therefore, exposure to credit risk is carefully managed. Risk is minimised by adoption of appropriate procedures and controls for the evaluation of the quality of the credit facilities held.

(a) Credit risk measurement and management - investment securities and derivatives

The Company holds lien agreements issued by Eurobank Ergasias S.A. for all investment securities held, whereby the latter guarantees to the Company, that in case of any default by the issuer of the investment securities, the Company can set off the receivable amounts with the equivalent funds placed by Eurobank Private Bank Luxembourg. As a result, the Company considers that it is not exposed to any credit risk exposure in relation to the investment in securities as these are guaranteed by Eurobank Ergasias S.A. with cash balances in place to cover the entire carrying amount of these investment securities. All derivative financial instruments held by the Company are with Eurobank Ergasias S.A., and as such the Company considers that these carry the credit risk of Eurobank Ergasias S.A. Therefore, as this is the ultimate parent entity of the Company, the Company does not have any specific policies in place to monitor this credit risk.

(b) Credit risk measurement – Loans and advances

Various credit rating systems are applied for the assessment and measurement of credit risk. These systems assign a specific rating to every borrower/counterparty which reflects the creditworthiness of the particular borrower and consequently the ability to repay funds on a timely manner. Credit rating takes under consideration various quantitative and qualitative factors. Rating systems are periodically reviewed and adapted to particular market conditions, products or borrowers.

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

Risk limit control and mitigation policies – Collateral

A range of policies and practices are employed to mitigate credit risk. The most traditional of these is the taking of security, which is common practice. The Company applies guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances to customers are:

• Cash deposits and other cash equivalents;
• Mortgages over residential properties;
• Charges over business assets such as accounts receivable;
• Charges over financial instruments such as debt securities and equities;
• Lien agreement from ultimate parent company.

Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at balance-sheet date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

The size and concentration of the Company's exposure to credit risk can be obtained directly from the Statement of Financial Position and Notes of the financial statements which describe the analysis of the Company's loan portfolio and financial instruments.

4.2.1.1 Maximum exposure to credit risk before collateral held

	2012 €	2011 €
Loans and advances to customers:		
Mortgage loans	**37.836.709**	40.015.915
Small business	**19.802.459**	22.045.912
Corporate portfolio	**4.600.386**	5.809.269
Less: Fair value adjustment and provision for impairment losses	**(18.605.344)**	(5.630.889)
Derivative financial instruments	**8.334**	87.560
Available-for-sale financial assets	**176.904.798**	-
Held-to-maturity investments	-	673.295.460
Debt securities lending portfolio	**4.225.132.848**	5.474.989.472
Other assets	**6.835.993**	5.225.246
	4.452.516.182	**6.215.837.945**

The above table represents the maximum credit risk exposure to the entity at 31 December 2012 and 2011, without taking account of any collateral held or other credit enhancements that do not qualify for offset in the entity's financial statements. The exposures set out above are based on net carrying amounts as reported in the statement of financial position.

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

4.2.1.2 Loans and advances to customers

Loans and advances are summarized as follows:

	2012 €	2011 €
Neither past due nor impaired	**589.831**	1.098.333
Past due but not impaired	**227.311**	667.048
Impaired:	**102.918.146**	108.259.458
- collectively assessed	**57.743.368**	60.196.198
- individually assessed	**45.174.778**	48.063.260
Gross loans and advances	**103.735.288**	110.024.837
Less: Fair value adjustment and provision for impairment losses	**(60.101.079)**	(47.784.630)
Net loans and advances	**43.634.209**	62.240.207
Included in gross loans and advances are:		
Past due more than 90 days	**102.926.786**	108.313.812
Of which non-performing loans	**102.918.147**	108.259.458

Loans and advances to customers relate to a portfolio of loans to Ukrainian clients originated by Eurobank Ergasias S.A. subsidiary in Ukraine. The portfolio was sub-participated in December 2010 and was recognized in Company's accounting records at the fair value, being the acquisition price, in accordance with the provisions of IAS 39. However for purposes of monitoring credit risk and for IFRS7 disclosure purposes, loans and advances to customers are presented on a gross basis. The Gross amount of such loans sub-participated at the date of transfer was €114.862 thousand. The resulting fair value adjustment, which essentially reflected credit risk, amounted to €45.012 thousand. Comparative figures have been adjusted accordingly.

Loans and advances to customers are classified as "neither past due nor impaired", "past due but not impaired" and "impaired". Loans are reported as "neither past due nor impaired" when no contractual payments are in arrears and there are no indications of impairment. "Past due but not impaired" category includes loans with contractual payments overdue by at least one day, but which are not impaired unless specific information indicates to the contrary. This is typically when loans are in arrears less than 90 days for consumer and small business exposures, and less than 180 days past due for mortgage and wholesale exposures. For loans in this category, although not considered impaired, the Group may recognize an impairment provision. "Impaired" loans that are individually assessed comprise wholesale exposures as well as small business loans which carry an individual impairment provision. All other retail impaired exposures carry a collective impairment provision.

(a) Loans and advances neither past due nor impaired

	2012 €	2011 €
Grades:		
Satisfactory risk	**589.831**	1.098.333
Watch list and special mention	**-**	-
Total loans and advances neither past due nor impaired	**589.831**	1.098.333

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

4.2.1.2 Loans and advances to customers (cont'd)

(b) Loans and advances past due, but not impaired

	31 December 2012				
	Mortgage	**Small Business**	**Consumer**	**Corporate Portfolio**	**Total**
	€	**€**	**€**	**€**	**€**
Past due up to 29 days	**27.929**	**8.153**	-	-	**36.082**
Past due 30 – 89 days	**129.396**	**53.193**	-	-	**182.590**
Past due 90 – 180 days	**8.639**	-	-	-	**8.639**
Greater than 180 days	-	-	-	-	-
Total loans and advances past due, but not impaired	**165.964**	**61.342**	-	-	**227.311**

	31 December 2011				
	Mortgage	Small Business	Consumer	Corporate Portfolio	Total
	€	€	€	€	€
Past due up to 29 days	-	475.724	-	-	457.724
Past due 30 – 89 days	57.846	79.123	-	-	136.970
Past due 90 – 180 days	54.354	-	-	-	54.354
Greater than 180 days	-	-	-	-	-
Total loans and advances past due, but not impaired	112.200	554.847	-	-	667.048

The Company applies guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The collateral types for loans and advances to customers primarily relate to residential and commercial properties.

(c) Impaired loans and advances collectively assessed

The breakdown of the gross amount of collectively assessed loans and advances by class is as follows:

	31 December 2012				
	Mortgage	**Small Business**	**Consumer**	**Corporate Portfolio**	**Total**
	€	**€**	**€**	**€**	**€**
Collectively assessed loans	**57.526.015**	**217.354**	-	-	**57.743.368**

	31 December 2011				
	Mortgage	Small Business	Consumer	Corporate Portfolio	Total
	€	€	€	€	€
Collectively assessed loans	59.853.933	342.265	-	-	60.196.198

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

4.2.1.2 Loans and advances to customers (cont'd)

(d) Impaired loans and advances individually assessed

The breakdown of the gross amount of individually assessed loans and advances by class are as follows:

	31 December 2012				
	Mortgage	Small Business	Consumer	Corporate Portfolio	Total
	€	€	€	€	€
Individually assessed loans	-	34.614.354	-	10.560.424	45.174.778

	31 December 2011				
	Mortgage	Small Business	Consumer	Corporate Portfolio	Total
	€	€	€	€	€
Individually assessed loans	-	36.264.713	-	11.798.547	48.063.260

(e) Non-performing loans

Non-performing loans are defined as the loans delinquent for a given period determined in accordance with the Group's policy. Mortgages and small business loans are considered as non-performing when they are delinquent for more than 180 days and consumer loans for more than 90 days. Loans to corporate entities are considered as non-performing when they are transferred to non accrual status which occurs when the loans are delinquent for more than 180 days or earlier in the case of a material credit event.

	2012	2011
	€	€
Mortgage lending	57.526.015	59.853.933
Small business lending	34.831.708	36.606.978
Corporate portfolio lending	10.560.424	11.798.547
Total non-performing loans	102.918.147	108.259.458

4.2.1.3 Debt securities

Below is an analysis of debt securities by rating agency designation:

	31 December 2012			
	Available for sale	Held to maturity	Debt securities lending	Total
	€	€	€	€
Aaa	60.025.267	-	-	60.025.267
Aa1 to Aa3	-	-	-	-
A1 to A3	11.750.020	-	48.017.234	59.767.254
Lower than A3	105.129.511	-	2.379.532.343	2.484.661.854
Unrated	-	-	1.797.583.271	1.797.583.271
Total debt securities	176.904.798	-	4.225.132.848	4.402.037.646

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

4.2.1.3 Debt securities (cont'd)

	31 December 2011			
	Available-for-sale financial assets	Held to maturity securities €	Debt securities lending €	Total €
Aaa	-	-	-	-
Aa1 to Aa3	-	-	-	-
A1 to A3	-	-	-	-
Lower than A3	-	673.295.460	5.474.989.472	6.148.284.932
Unrated	-	-	-	-
Total debt securities	-	673.295.460	5.474.989.472	6.148.284.932

4.2.1.4 Concentration of credit risk

(a) Geographical sectors

The following tables break down the Company's main credit exposure at their gross carrying amounts, as categorized by geographical region as at 31 December 2012 and 2011. For this table, the Company has allocated exposures to regions based on the country of domicile of its counterparties:

	31 December 2012			
	Greece €	**Ukraine €**	**Other countries €**	**Total €**
Loans and advances to customers:				
Mortgage lending	-	**57.752.410**	-	**57.752.410**
Small business lending	-	**35.422.454**	-	**35.422.454**
Corporate portfolio lending	-	**10.560.424**	-	**10.560.424**
Available-for-sale financial assets	-	-	**176.904.798**	**176.904.798**
Debt securities lending portfolio	**2.347.243.773**	-	**1.877.889.075**	**4.225.132.848**
Held-to-maturity investments	-	-	-	-
Derivative financial instruments	**8.334**	-	-	**8.334**
Other assets	**313.156**	**6.522.837**	-	**6.835.993**
Total concentration of credit risk – geographical sectors	**2.347.565.263**	**110.258.125**	**2.054.793.873**	**4.512.617.261**

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

4.2.1.4 Concentration of credit risk (cont'd)

(a) Geographical sectors (cont'd)

	31 December 2011			
	Greece €	Ukraine €	Other countries €	Total €
Loans and advances to customers:				
Mortgage lending	-	60.641.700	-	60.641.700
Small business lending	-	37.584.592	-	37.584.592
Corporate portfolio lending	-	11.798.545	-	11.798.545
Available-for-sale financial assets	-	-	-	-
Debt securities lending portfolio	5.474.989.472	-	-	5.474.989.472
Held-to-maturity investments	673.295.460	-	-	673.295.460
Derivative financial instruments	87.560	-	-	87.560
Other assets	680.879	4.544.367	-	5.225.246
Total concentration of credit risk – geographical sectors	6.149.053.371	114.569.204	-	6.263.622.575

(b) Industry sectors

The following tables break down the Company's main credit exposure at their gross carrying amounts, as categorized by the industry sectors of its counterparties as of 31 December 2012 and 2011.

	31 December 2012					
	Commerce and services €	Private individuals €	Manufacturing €	Construction €	Other €	Total €
Loans and advances to customers:						
Mortgage lending	-	57.752.410	-	-	-	57.752.410
Small business lending	35.310.603	111.851	-	-	-	35.422.454
Corporate portfolio lending	6.414.454	-	-	4.145.870	-	10.560.424
Available-for-sale financial assets	-	-	-	-	176.904.798	176.904.798
Debt securities lending portfolio	-	-	-	-	4.225.132.848	4.225.132.848
Held-to-maturity investments	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	8.334	8.334
Other assets	-	-	-	-	6.835.993	6.835.993
Total concentration of credit risk – industry sectors	41.725.157	57.864.261	-	4.145.870	4.408.881.973	4.512.617.261

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.1 Credit risk (cont'd)

4.2.1.4 Concentration of credit risk (cont'd)

(b) Industry sectors (cont'd)

	31 December 2011					
	Commerce and services €	Private individuals €	Manufacturing €	Construction €	Other €	Total €
Loans and advances to customers:						
Mortgage lending	-	60.641.700	-	-	-	60.641.700
Small business lending	37.386.236	198.355	-	-	-	37.584.592
Corporate portfolio lending	7.046.997	-	-	4.751.550	-	11.798.547
Available-for-sale financial assets	-	-	-	-	-	-
Debt securities lending portfolio	-	-	-	-	5.474.989.472	5.474.989.472
Held-to-maturity investments	-	-	-	-	673.295.460	673.295.460
Derivative financial instruments	-	-	-	-	87.560	87.560
Other assets	-	-	-	-	5.225.246	5.225.246
Total concentration of credit risk – industry sectors	44.433.233	60.840.055	-	4.751.550	6.153.597.738	6.236.622.576

4.2.2 Market risk

The Company takes on exposure to market risks. Market risks arise from exposure on interest rate and currency products or combination of them, all of which are exposed to general and specific market movements. Specifically, the market risks the Company is exposed to are the following:

(a) Interest rate risk

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

(b) 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. Limits are set on the level of exposures which are monitored daily. FX exposure is generally reduced by obtaining funding in the currency of the asset acquired.

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.2 Market risk (cont'd)

(c) Fair values

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. A market price, where an active market (such as a recognised stock exchange) exists, is the best evidence of the fair value of a financial instrument. Where market prices are not available, the fair value of financial assets and liabilities is estimated using present value or other estimation and valuation techniques where all significant inputs are observable. These inputs are mainly related to interest rate curves, fx rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers. The values derived using these techniques are significantly affected by underlying assumptions concerning both the amounts and timing of future cash flows and the discount rates used. In addition, the fair values reported, may be materially different from the values actually realised upon sale or settlement.

Financial instruments carried at fair value

All financial instruments that are measured at fair value are categorised in one of the three fair value hierarchy levels at year-end; based on whether the inputs to the fair values are observable or non-observable:
i) Level 1 – Quoted prices in active markets for identical assets and liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis.
ii) Level 2 – Financial instruments measured using valuation techniques where all significant inputs are market observable.
iii) Level 3 – Financial instruments measured using valuation technique with significant non observable inputs.

Derivatives and available for sale securities are measured at fair value by reference to quoted market prices when available. If quoted prices are not available, then the fair values are estimated using valuation techniques.

The fair value hierarchy categorization of the entity's financial assets and liabilities carried at fair value is as follows:

	31 December 2012			31 December 2011		
	Level 1	**Level 2**	**Total**	Level 1	Level 2	Total
	€	€	€	€	€	€
Available for sale	176.904.798	-	176.904.798	-	-	-
Derivatives assets	-	8.334	8.334	-	87.560	87.560
Derivatives liabilities	-	(8.337)	(8.337)	-	(39.637.403)	(39.637.403)

Financial instruments not carried at fair value

In respect of loans and advances to customers, as of the reporting date, the Company expected to realize assets through collection over time. The fair value for loans and advances to customers is

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.2 Market risk (cont'd)

approximately equal to their book value, which is net of the related allowances for losses. The fair value of debt securities lending portfolio equals to € 3.130.790 thousand, and taking into account related guarantees received by the entity, is approximately equal to their carrying values. For all of the other assets and liabilities, the fair value is substantially equivalent to their carrying value.

4.2.3 Liquidity risk

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for a company in the financial services industry to be completely matched, as transacted business is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Company.

Liquidity Risk Management Framework

The Group's Liquidity Risk Management Policy defines the following supervisory and control structure:

- Eurobank Risk Committee's role is to approve all strategic liquidity risk management decisions and monitor the quantitative and qualitative aspects of liquidity risk.
- Company Assets and Liabilities Committee has the mandate to form and implement the liquidity policies and guidelines in conformity with Company's risk appetite, and to review monthly the overall liquidity position of the Company.
- Company Treasury is responsible for the implementation of the Company's liquidity strategy, the daily management of the Company's liquidity and for the preparation and monitoring of the Company's liquidity budget.
- Global Market and Counterparty Risk Sector is responsible for measuring, monitoring and reporting the liquidity of the Company.

The following list summarises the reports which are produced on a periodic basis:

(a) The regulatory liquidity gap report along with the regulatory liquidity ratios
(b) Stress test scenarios. These scenarios evaluate the impact of a number of systemic stress events on the Group's liquidity position
(c) Liquidity warning indicators

Notes to the financial statements for the year ended 31 December 2012

4 Financial risk management (cont'd)

4.2 Financial risk factors (cont'd)

4.2.3 Liquidity risk (cont'd)

Maturity analysis of liabilities

The amounts disclosed in the table below are the contractual undiscounted cash flows for the period ended 31 December 2012 and 2011. Liabilities without contractual maturities are presented in the "less than 1 month" time bucket.

It should be noted that this table represents the worst case scenario since it is based on the assumption that all liabilities will be paid earlier than expected. The recent experience shows that even in a period of a systemic financial crisis the likelihood of such an event is remote.

	31 December 2012				
	Less than 1 month	**1-3 months**	**3 months to 1 year**	**Over 1 year**	**Gross nominal (inflow)/ outflow**
	€	**€**	**€**	**€**	**€**
Non-derivative liabilities:					
Loans payable	**961.395.279**	**2.647.534.694**	**8.161.833**	**875.031.990**	**4.492.123.796**
Other liabilities	**4.144.585**	**-**	**-**	**-**	**4.144.585**
Total non-derivative liabilities	**965.539.864**	**2.647.534.694**	**8.161.833**	**875.031.990**	**4.496.268.381**
Derivative financial instruments	**926**	**1.853**	**5.558**	**-**	**8.337**

	31 December 2011				
	Less than 1 month	1-3 months	3 months to 1 year	Over 1 year	Gross nominal (inflow)/ outflow
	€	€	€	€	€
Non-derivative liabilities:					
Loans payable	5.885.113.897	222.361.789	76.392.755	-	6.183.868.441
Other liabilities	4.547.845	-	-	-	4.547.845
Total non-derivative liabilities	5.889.661.742	222.361.789	76.392.755	-	6.188.416.286
Derivative financial instruments	595.652	1.191.304	5.360.866	32.489.581	39.637.403

4.3 Capital 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 shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Company's policy is to maintain a capital base so as to support operations and sustain future development of the business as necessary. Capital consists of share capital, share premium and retained earnings. The Company is not regulated and hence not required to comply with any capital requirements.

Notes to the financial statements for the year ended 31 December 2012

5 Interest income

	2012 €	Period from 25 November 2010 to 31 December 2011 €
Interest from held-to-maturity investments	**4.102.858**	19.350.996
Interest from available-for-sale financial assets	**107.857**	-
Interest from debt securities lending	**122.009.419**	150.128.121
Interest from loans and advances to customers	**1.397.563**	-
Interest from derivatives	**1.511.306**	22.199.763
	129.129.003	191.678.882

6 Interest expense

	2012 €	Period from 25 November 2010 to 31 December 2011 €
Interest on loans payable	**(87.662.729)**	(138.166.716)
Interest on derivatives	**(1.903.770)**	(34.656.704)
	(89.566.499)	(172.823.420)

7 Net trading gain/(loss)

	2012 €	Period from 25 November 2010 to 31 December 2011 €
Revaluation of foreign exchange position	**460.596**	(1.180.138)
	460.596	(1.180.138)

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Notes to the financial statements
for the year ended 31 December 2012

8 Operating expenses

	2012 €	Period from 25 November 2010 to 31 December 2011 €
Accounting fees	**(24.090)**	(20.470)
Auditors' remuneration for the statutory audit of annual accounts	**(29.250)**	(35.000)
Auditors' remuneration for other non-audit service	**(5.265)**	(575)
Other operating expenses	**-**	(10.820)
	(58.605)	(66.865)

9 Taxation

	2012 €	Period from 25 November 2010 to 31 December 2011 €
Corporation tax – current year	**(203.859)**	(220.732)
	(203.859)	(220.732)

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2012 €	Period from 25 November 2010 to 31 December 2011 €
Loss before tax	**(10.520.324)**	(8.150.942)
Tax calculated at the applicable tax rates	**(1.052.032)**	(815.094)
Tax effect of expenses not deductible for tax purposes	**1.447.279**	1.211.284
Tax effect of allowances and income not subject to tax	**(151.615)**	(180.162)
Other	**(39.773)**	4.704
Tax charge	**203.859**	220.732

The corporation tax rate for 2012 is 10% (1 January 2013 onwards is increased to 12,5%).

Notes to the financial statements for the year ended 31 December 2012

9 Taxation (cont'd)

From 1 January 2009 onwards, under certain conditions, interest may be exempt from income tax and only subject to special defence contribution at the rate of 10%; increased to 15% as from 31 August 2011; increased to 30% as from 29 April 2013.

In certain cases, dividends received from abroad may be subject to special defence contribution at the rate of 15%; increased to 17% as from 31 August 2011; increased to 20% from 1 January 2012 to 31 December 2013; reduced to 17% as from 1 January 2014.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

Notes to the financial statements for the year ended 31 December 2012

10 Derivative financial instruments

The Company utilizes currency and interest rate swaps.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e. cross-currency interest rate swaps). Except for certain currency swaps, no exchange of principal takes place. The Company's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk undertaken, the Company assesses counterparties using the same techniques as for its lending activities and/or marks to market with bilateral collateralization agreements over and above an agreed threshold.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table:

	2012		
	Contract/ notional amount	**Fair Values**	
		Assets	**Liabilities**
	€	**€**	**€**
Derivatives designated as fair value hedges			
Cross currency interest rate swaps	-	-	-
Interest rate swaps	**17.389.723**	**8.334**	**8.337**
	17.389.723	**8.334**	**8.337**

	2011		
	Contract/ notional amount	Fair Values	
		Assets	Liabilities
	€	€	€
Derivatives designated as fair value hedges			
Cross currency interest rate swaps	54.096.806	25.140	14.866.443
Interest rate swaps	157.000.000	62.420	24.770.960
	211.096.806	87.560	39.637.403

Notes to the financial statements for the year ended 31 December 2012

10 Derivative financial instruments (cont'd)

Hedge accounting

The Company uses derivatives for hedging purposes in order to reduce its exposure to market risks. The hedging practices and accounting treatment are disclosed in note 2.5.

11 Loans and advances to customers

The Company has acquired the entire portfolio of Loans and advances to customers from Universal Bank, Eurobank Ergasias S.A. subsidiary in Ukraine.

	2012 €	2011 €
Repayable:		
Within one year	62.239.553	67.871.096
More than one year	-	-
	62.239.553	67.871.096
Less: allowance for losses of loans and advances	(18.605.344)	(5.630.889)
	43.634.209	62.240.207

	2012 €	2011 €
By category:		
Mortgage loans - USD	28.834.424	30.705.734
Mortgage loans - CHF	9.002.285	9.310.181
Small Business - USD	18.491.121	20.661.844
Small Business – CHF	1.311.338	1.384.068
Consumer loans - USD	-	-
Corporate Portfolio - USD	4.600.386	5.809.269
Gross loans and advances to customers	62.239.553	67.871.096
Less: Provision for impairment losses	(18.605.344)	(5.630.889)
	43.634.209	62.240.207

Notes to the financial statements for the year ended 31 December 2012

11 Loans and advances to customers (cont'd)

The movement of the provision for impairment losses on loans and advances by class is as follows:

	Mortgage	Small Business	2012 Consumer loans	Corporate portfolio	Total
	€	€	€	€	€
Balance at 1 January	**2.092.109**	**238.724**	**-**	**3.300.056**	**5.630.889**
Impairment losses on loans and advances charged in the period	**6.151.614**	**6.579.108**	**-**	**151.081**	**12.881.803**
Amounts recovered during the period	**-**	**73.681**	**-**	**-**	**73.681**
Foreign exchange differences	**(88.070)**	**165.421**	**-**	**(58.380)**	**18.971**
Balance at 31 December	**8.155.653**	**7.056.934**	**-**	**3.392.757**	**18.605.344**

	Mortgage	Small Business	2011 Consumer loans	Corporate portfolio	Total
	€	€	€	€	€
Impairment losses on loans and advances charged in the period	1.904.402	265.455	(87.746)	3.067.205	5.149.316
Amounts recovered during the period	-	19.320	103.863	-	123.183
Loans written off during the period as uncollectible	-	(3.403)	(1.600)	-	(5.003)
Foreign exchange differences	187.707	(42.648)	(14.517)	232.851	363.393
Balance at 31 December	2.092.109	238.724	-	3.300.056	5.630.889

Notes to the financial statements for the year ended 31 December 2012

12 Available-for-sale financial assets

	2012	2011
	€	€
Issued by public organisations:		
-Russia	46.338.403	-
-Germany	60.025.267	-
-Serbia	41.599.098	-
	147.962.768	-
Issued by other issuers:		
-Banks	14.073.035	-
-Other	14.868.995	-
	28.942.030	-
Total	176.904.798	-
Listed	176.904.798	-
Unlisted	-	-
	176.904.798	-
Equity	-	-
Debt	176.904.798	-
	176.904.798	-

The movement in the account is as follows:

	2012	2011
	€	€
Net book value at 1 January	-	-
Additions	176.299.765	-
Interest & amortisation of premium/ discount	107.857	-
Foreign exchange adjustments	174.843	-
Net gains from changes in fair values	322.333	-
Net book value at 31 December	176.904.798	-

Available-for-sale financial assets maturing after 1 year amounted to €168.321.244.

Notes to the financial statements for the year ended 31 December 2012

13 Debt securities lending portfolio

	2012 €	2011 €
Issued by public organisations:		
-Greece	2.346.833.868	5.474.789.199
-Romania	27.824.026	-
	2.374.657.894	5.474.789.199
Issued by other issuers:		
-Banks	48.427.138	-
-Other	1.802.047.816	200.274
	1.850.474.954	200.274
Total	4.225.132.848	5.474.989.472
Listed	4.225.132.848	5.474.989.472
Unlisted	-	-
	4.225.132.848	5.474.989.472
Equity	-	-
Debt	4.225.132.848	5.474.989.472
	4.225.132.848	5.474.989.472

The movement in the account is as follows:

	2012 €	2011 €
Net book value at 1 January	5.474.989.472	-
Additions	11.677.157.899	10.560.887.194
Disposals	(6.831.437.738)	(4.682.836.508)
Redemptions/ Maturities	(6.117.472.796)	(631.928.782)
Foreign exchange adjustments	(4.227.903)	7.892.700
Change in fair value due to hedging	(23.767.661)	23.767.661
Interest, amortisation of premium/ discount & inflation linked bonds adjustment	93.492.458	151.769.557
Adjustment due to fair value hedging discontinuance	(43.600.884)	45.922.977
Amortisation of adjustment due to fair value hedging discontinuance	-	(485.328)
Net book value at 31 December	4.225.132.848	5.474.989.472

Debt securities lending financial assets maturing after 1 year: €1.792.074.553 (2011: €2.522.511.845)

The Company has acquired the entire portfolio of debt securities at amortized cost from Group entities. The above portfolio was guaranteed by the ultimate parent company Eurobank Ergasias S.A. (see also Note 20 Lien agreement).

Notes to the financial statements for the year ended 31 December 2012

14 Held to maturity investments

Held-to-maturity investments comprise entirely of Greek Government bonds.

The movement in the account is as follows:

	2012 €	2011 €
Net book value at 1 January	**673.295.460**	-
Additions	-	680.332.552
Disposals and redemptions	**(677.398.317)**	(26.388.089)
Interest & amortisation of premium/ discount	**4.102.857**	19.350.997
Net book value at 31 December	-	673.295.460

The Company has acquired the entire portfolio of held to maturity investments at amortized cost from Group entities. The above portfolio was guaranteed by the ultimate parent company Eurobank Ergasias S.A. (see also Note 20 Lien agreement)

During 2012 the Company transferred its entire portfolio of Greek government bonds to Eurobank Ergasias S.A. (the ultimate parent company) as part of its participation in greek government bonds exchange program (PSI+; Private Sector Involvement). Due to the lien agreement with Eurobank Ergasias S.A. (for details refer to Note 20) the Company incurred no loss from the above transaction.

15 Investments in subsidiaries

	2012 €	2011 €
Balance at 1 January	-	-
Additions	**670.000**	-
Balance at 31 December	**670.000**	-

The entity acquired in February 2012, in the context of a group reorganization, a 100% shareholding of ERB Hellas (Cayman Islands) Ltd, a group related company incorporated in the Cayman islands.

16 Other assets

	2012 €	2011 €
Receivable from related party - Universal Bank JSC	**6.522.837**	4.544.367
Other receivables	**313.156**	680.879
	6.835.993	5.225.246

Notes to the financial statements for the year ended 31 December 2012

17 Share capital

	Number of shares	Share capital	Share premium	Total
Authorised		€	€	€
At 31 December 2012 & 2011	**90.000**	**90.000**	**-**	**90.000**
Issued and fully paid				
At 1 January 2012	1.100	1.100	18.900	20.000
At 31 December 2012 & 2011	**1.100**	**1.100**	**18.900**	**20.000**

18 Loans payable

	2012	2011
	€	€
Current borrowings		
Loans from related companies - Euro	**4.300.801.931**	6.099.763.987
Loans from related companies - USD	**155.617.585**	63.579.936
Loans from related companies - CHF	**11.534.677**	11.481.804
Loans from related companies - JPY	**-**	5.217.038
	4.467.954.193	6.180.042.765

Borrowings are issued at variable rate. During the year 2012, the Company's interest rate on the loans payable was based on EURIBOR/ LIBOR plus a margin ranging from 0,425% to 2,20%.

19 Other liabilities

	2012	2011
	€	€
Other creditors	**116.109**	19.691
Accrued commission expenses	**3.955.859**	4.484.124
Accrued operating expenses	**66.467**	44.030
	4.138.435	4.547.845

Notes to the financial statements for the year ended 31 December 2012

20 Related party transactions

Eurobank Ergasias S.A. shareholding structure

As at 31 December 2012 Eurobank Ergasias S.A. owns indirectly 100% of ERB New Europe Funding III through its 100% subsidiary NEU Property Holdings Ltd.

EFG Group was the controlling shareholder of the Eurobank Ergasias S.A., holding 44.70% of the Eurobank's ordinary shares and voting rights until 23 July 2012.

In May 2013, following its full subscription in Eurobank's recapitalisation of € 5,839 million, the HFSF became the controlling shareholder and a related party of Eurobank. On 19 June 2013, HFSF acquired 3,789,317,358 Eurobank's ordinary shares with voting rights, representing 98.56% of its ordinary share capital. Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the controlling percentage of HFSF increased to 95.23%.

Following the completion of Bank's share capital increase fully covered by private, institutional and other investors, the percentage of the ordinary shares with voting rights held by the HFSF decreased from 95.23% to 35.41%. In addition, in the context of the Law 3864/2010 (the 'HFSF Law') as recently amended by Law 4254/2014, the HFSF's voting rights in the Bank's General Assemblies are no longer full but have been switched to restricted ones. As a result of the above, the HFSF is no more the controlling shareholder of the Group but is considered to have significant influence over it, remaining therefore a related party to the Company.

(i) The following transactions were carried out with related parties:

	With Eurobank Ergasias S.A.		With Eurobank Ergasias S.A. Group (other than Eurobank Ergasias S.A.)	
	2012	2011	**2012**	2011
	€	€	**€**	€
Cash at bank	**10.237**	10.499	**151.022**	27.895
Derivative financial instruments - assets	**8.334**	87.560	**-**	-
Debt securities lending portfolio	**869.523.043**	-	**928.261.010**	200.274
Other assets	**313.156**	680.879	**6.522.837**	4.544.367
Derivative financial instruments-liabilities	**(8.337)**	(39.637.403)	**-**	-
Other liabilities	**(3.955.859)**	(4.484.124)	**-**	-
Loans payable	**(73.083.587)**	(75.617.653)	**(4.394.870.606))**	(6.104.425.112)
Interest income	**7.339.917**	-	**9.330.602**	-
Interest expense	**(3.363.460)**	(15.747.783)	**(84.691.733)**	(134.875.872)
Fee and commission income	**906.678**	1.129.759	**-**	-
Fee and commission expense	**(39.544.314)**	(20.911.145)	**-**	-
Net trading loss	**(3.171.143)**	(760.460)	**-**	-

Notes to the financial statements for the year ended 31 December 2012

20 Related party transactions (cont'd)

(ii) Key management personnel

Key management personnel includes directors of the Company and their close family members. No transactions have taken place between the Company and key management personnel.

(iii) Other related party transactions

Lien agreement

As of 31 December 2012, the Company has in place lien agreement from Eurobank Ergasias S.A., which act as guarantee for the purposes of securing assets reported under Debt securities lending portfolio, Held-to-maturity investments and Available-for-sale financial assets. Based on the lien agreement, in case of any default, the Company can set off the receivable amounts with the equivalent funds placed by Eurobank Private Bank Luxembourg. Related fee expense due to Eurobank Ergasias S.A. amounted to €39.544 thousand for 2012 (2011: €20.911 thousand).

Securities lending

The Company has entered into an agreement with Eurobank Ergasias S.A. under which the two parties may enter into transactions in which one party will transfer to the other securities and financial instruments against the transfer of collateral with a simultaneous agreement by the borrower to transfer to the lender, securities equivalent to such securities on a fixed date or on demand against the transfer to borrower by the lender of assets equivalent to such collateral. As at 31 December 2012 the amount which corresponded to securities lent by the Company to Eurobank Ergasias S.A. was €4.301.682 thousand.

21 Contingent liabilities and commitments

The Company had no contingent liabilities or commitments as at 31 December 2012.

22 Events after the balance sheet date

Following the period end, 'Debt securities lending portfolio' has been significantly decreased (stands at €1.194 million as of 31.3.2014) with a corresponding decrease in 'Loans payable'.

During January - April 2014, the Ukrainian Hryvnia saw a significant decrease in value against the major world currencies. The situation in Ukraine is further jeopardized after capture of Crimean Parliament and Government buildings by unnamed armed forces followed by replacement of local Government, growing presence of Russian armed forces in Crimea, decision taken by Crimean parliament on joining the Russian Federation and signing the agreement between the Russian Federation and the Republic of Crimea on the accession of the Republic of Crimea to the Russian Federation on 18 March 2014.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on Ukrainian financial and corporate sectors. Management determined loan impairment provisions by considering the economic situation and outlook at the end of the reporting period, and applied the 'incurred loss' model required by the applicable accounting

Notes to the financial statements for the year ended 31 December 2012

22 Events after the balance sheet date (cont'd)

standards. These standards require recognition of impairment losses that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are. As such, actual losses from impairment of financial assets may differ from the current level of impairment provisions.

Borrowers of the Bank may be adversely affected by the deteriorated financial and economic environment, including devaluation of the Ukrainian Hryvnia. As all loans to customers were issued in foreign currencies, UAH depreciation against these currencies could have a significant impact on borrowers' ability to service the loans. Management currently tests loans for impairment with due consideration of the above risk factors.

The market in Ukraine for many types of collateral, especially real estate, has been severely affected by the overall situation in the Ukraine economy, resulting in a low level of liquidity for certain types of assets. As a result, the actual realisable value on future foreclosure may differ from the value ascribed in estimating allowances for impairment at the end of the reporting period.

In March 2014, Eurobank's management committed to a plan to sell the Group's operations in Ukraine (including the Ukrainian portfolio booked in ERB New Europe Funding III). The sale was considered highly probable, therefore, the Group's operations in Ukraine were classified as a disposal group held for sale.

On 14 August 2014, Eurobank entered into an agreement with entities of the Ukrainian Delta Bank Group for the disposal of its Ukrainian subsidiary "Public J.S.C. Universal Bank". The agreement also assumed the transfer of other Ukrainian assets (including the Ukrainian loan portfolio held in ERB New Europe Funding III) under a discount to the loan portfolio net book value implying impairment. The transaction was subject to the necessary approvals by the competent authorities as well as conditions relating to the political and economic situation in Ukraine.

On 23 September 2014, Eurobank Ergasias S.A. announced that the appropriate approvals have not been provided in order for the aforementioned transaction to be completed. Consequently, Eurobank Ergasias S.A. decided to terminate the agreement with the Delta Bank Group.

Eurobank's management remains committed to the aforementioned plan hence classification of operations in Ukraine as a disposal group held for sale in the Group's consolidated financial statements has not been altered.

Independent auditor's report on pages 7 and 8.