ERB Hellas (Cayman Islands) Limited

Annual Report

For the year ended 31 December 2016

Company's registration number: CR-117363

Index to the Annual report

Declaration of the managers responsible for financial reporting

The undersigned Anastasios Ioannidis, director of ERB Hellas (Cayman Islands) Limited (the "Company" or the "Issuer"), to the best of his knowledge, hereby declares that the annual non statutory financial statements prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the IASB, as endorsed by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Issuer and that the report of the directors includes a fair review of the development and performance of the business and the position of the Issuer, together with a description of the principal risks and uncertainties that the Company is exposed to.

Anastasios Ioannidis
Director

15 September 2017

Directors' Report

The Directors submit their report and the audited non statutory financial statements of the Company for the year ended 31 December 2016.

i) Business review and principal activities

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

The Company was incorporated as part of the funding strategy of Eurobank Ergasias S.A. (the "Parent Company" or the "Bank") in order to establish a program for the issuance of medium term debt instruments (EMTN). This program was last updated in May 2017. The Prospectus of EMTN program is available at the Parent Company's website (www.eurobank.gr). The outstanding issues of debt instruments are guaranteed by the Parent Company. The net proceeds of each issuance are applied by the Company to meet part of the general financing requirements of the Company's Parent Company and its subsidiaries.

The loss for the year amounted to € 45 ths (2015: € 61,691 ths loss). As at 31 December 2016 the total equity of the Company amounted to € 628 ths (2015: € 673 ths). During the year the Company proceeded with the partial redemption of loan notes of face value of € 33,911 ths, while it proceeded with the issue of loan notes of face value of € 1,500 ths. No dividend was paid to shareholders during 2016 (2015: nil).

ii) Business environment, strategy and future outlook

The Company's business strategy and activities are linked to those of its Parent Company. In 2016, the macroeconomic environment in Greece remained challenging for the Greek banking system. Despite the signs of stabilization in the domestic economy, the delays in the implementation of the reforms agenda and the tight liquidity conditions hindered the economic expansion and business activity. In this demanding context, the Parent Company's Group managed to return to profitability and to improve its capital and liquidity position.

In June 2016, Greece, after the completion of a number of key prior actions, successfully concluded the first review of the Third Economic Adjustment Program (TEAP), which permitted the disbursement of € 10.3 bn from the second instalment of the European Stability Mechanism (ESM) loan in two sub-tranches. Accordingly, the European Central Bank (ECB), acknowledging the commitment of the Greek government to implementing the macroeconomic adjustment program, decided to reinstate the waiver for the instruments issued by the Hellenic Republic and the improvement of the advance rates for providing Eurosystem financing with Pillar II guarantees as collateral. Furthermore, the conclusion of the first review led to a positive ESM decision regarding the implementation of the short-term debt relief measures from 20 January 2017 onwards. The latter measures aim to reduce the interest rate risk for Greece, and to ease the country's repayment burden.

On 22 May 2017, a preliminary technical agreement was reached between Greece and the Institutions in the context of the second review of the TEAP, which had officially started in October 2016. On 15 June 2017, the Eurogroup welcomed the Staff Level Agreement (SLA) reached between Greece and the Institutions after the implementation of a series of prior actions including structural reforms and fiscal structural measures amounting to ca 2% of GDP for the post program period. The SLA paved the way for the release of the next loan tranche to Greece under the existing adjustment program, amounting to € 8.5bn in two sub-tranches, for debt servicing needs and arrears clearance. The first sub-tranche of € 7.7bn has already been disbursed. The second sub-tranche of € 0.8bn is expected to be disbursed in late

Directors' Report (continued)

September 2017 conditional on the significant progress by the Greek authorities towards the clearance of the general government arrears to the private sector that amounted at € 5.4bn at the end of July 2017.

The aforementioned developments led to the upgrade of the Greek sovereign rating by Moody's from Caa3 to Caa2 on 23 June 2017. S&P on 21 July 2017 revised its outlook on Greece to positive from stable and kept its rating unchanged. More recently, on 18 August 2017, Fitch Ratings upgraded Greece's sovereign rating to B- from CCC, citing reduced political risk and sustained GDP growth. On the back of these positive developments, the Greek Government issued a €3.0bn 5-year syndicated bond on 25 July 2017 at a yield of 4.625% for the first time since July 2014. The proceeds of the bond issue will be used for further liability /debt management and for the build-up of a state cash buffer in the context of the 15 June 2017 Eurogroup's decisions.

The IMF's participation in the TEAP in principle i.e. with no financial envelope until the end of the current program, even though important, signaled the Fund's considerations over the sustainability of the Greek public debt and the postponement of the implementation of further debt relief measures. According to the 15 June 2017 Eurogroup's decisions, the further quantification of the medium term debt relief measures and their implementation, if necessary, is expected to take place after the successful conclusion of the current program in August 2018.

On the fiscal front, according to the most recent Hellenic Statistical Authority (ELSTAT) data on fiscal balance, the 2016 primary surplus was at 3.9% of GDP (European System of National and Regional Accounts-ESA 2010). According to the Greek government and the European Commission (EC), the 2016 primary surplus in program terms was at 4.2% of GDP outperforming both the TEAP (0.5%) and the budget (1.1%) targets. Under the TEAP, the primary balance for 2017 and 2018 is expected at 1.75% and 3.5% of GDP respectively. The TEAP's 2017 primary balance target is attainable conditional on no major negative surprises on the revenues and / or expenditures of the 2017 Budget in the upcoming months. Based on the most recent budget execution data the primary balance for the January-July 2017 period recorded a surplus of ca € 3bn or 1.7% of GDP, (outperforming the respective 2017 Budget target of € 2.1bn or 1.2% of GDP).

The current account, according to the IMF was at -0.6% of GDP in 2016 from 0.1% of GDP in 2015. It continued on an improving pattern compared to its 2008 respective performance (deficit of 15.1% of GDP) due to tourism revenues, the decline of imports and the positive effect of the PSI (2012) debt relief measures on the income account. The current account is expected at -0.3%, and 0.0% of GDP for 2017 and 2018 respectively.

Based on ELSTAT data, the unemployment rate in June 2017 was 21.2% (June 2016: 23.6%) and had decreased by approximately 6.7 percentage points (ppts) since the peak of July 2013 (27.9%), pointing towards a slow path of decline, conditional on no unforeseen negative developments in the upcoming period. According to the 2017 Spring EC forecasts, the unemployment rate is expected at 22.8%, and at 21.6% for 2017 and 2018 respectively.

The ongoing deleveraging in the Greek economy can be considered as a major drag for recovery. According to the latest available data from the Bank of Greece (BoG), i.e. in July 2017, the private sector domestic credit balance stood at € 188.8bn from € 194.7bn in December 2016, a decrease of 3.1%. On the other side of the ledger, private sector domestic deposits amounted to € 121.2bn in July 2017 from €121.4bn in December 2016, registering a decrease of 0.1%. The recovery of deposits is closely related with the timely and successful conclusion of the upcoming reviews of the TEAP and the return of the country to a sustainable growth path.

Directors' Report (continued)

Risks continue to surround the near-term domestic economic outlook. The unemployment rate remains very high and follows a slowly decreasing path. At the same time, the country was in a deflationary territory for 37 out of the last 52 consecutive months from late-2011 onwards. According to the most recent data, the general price level (the harmonized index of consumer prices "HICP") recorded an increase of ca 0.9% in August 2017 from a 0.9% decrease in August 2016. In 2016 real GDP was at 0.0% on an annual basis, driven by private consumption while all other expenditure-side components exerted a negative contribution. According to the 2017 Spring EC forecast, real GDP growth for 2017 and 2018 is expected at 2.1% and 2.5% respectively conditional on the prompt TEAP implementation, the timely successful conclusion of the upcoming reviews of the program, ownership of reforms and a benign external environment.

Regarding the outlook for the next 12 months, the main risks and uncertainties stem from the current macroeconomic environment in Greece. In particular, risks include: a) the possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, b) the impact on the level of economic activity from the fiscal and social security-related measures agreed under the reviews of the TEAP, c) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, d) the possible slow pace of deposits inflows, and/or possible delays in the effective management of Non Performing Exposures (NPEs) as a result of the challenging macroeconomic conditions in Greece and e) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy. Materialization of those risks would have potentially adverse effects on the liquidity and solvency of the Greek banking sector. Continuation of the weak economic activity could affect the prospects of the Greek banking system leading to the deterioration of asset quality, prolongation of increased dependence on Eurosystem funding, particularly on the expensive Emergency Liquidity Assistance (ELA) mechanism, and further pressures on the revenue side from increased funding cost and lower fees and commission income.

On the other hand, the successful completion of the second review of the TEAP will help reinstating depositors' confidence and thus accelerate the return of deposits and it will facilitate the faster relaxation of capital controls and it will positively influence the financing of the economy. The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 Eurogroup decisions, the mobilization of EU funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a strong and sustainable growth path.

The directors monitor the progress of the Company by reference to financial and non-financial data available to them on a regular basis. Particular attention is paid to net profit/loss, net interest income, total equity and the balances of debt instruments outstanding at the reporting date. The assessment by the directors of the Company's ongoing business model is closely associated with the business decisions and operations of the Parent Company. On the basis of the analysis of the Parent Company's and the Company's capital solvency and liquidity (note 2), and taking into account the completion of the second review of Greece's current adjustment program that reduced the level of uncertainty associated with the domestic macroeconomic environment, the directors have been satisfied that the Company has the ability to continue as a going concern into the foreseeable future and that it is appropriate to prepare the financial statements of the Company on a going concern basis.

Directors' Report (continued)

iii) Principal risks and uncertainties

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

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

The principal risks and uncertainties of the Parent Company, which include those of the Company, are discussed in the Report of Directors and the notes to the Consolidated Financial Statements included in the 2017 interim Financial Report of Eurobank Ergasias S.A., which was signed on 29 August 2017 (available at website: www.eurobank.gr).

iv) Creditor payment policy

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

v) Directors

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

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

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

vi) Parent company

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

vii) Directors' responsibilities in relation to the financial statements

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

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

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

Directors' Report (continued)

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

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

viii) Statement of disclosure of information to auditors

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

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

ix) Independent Auditors

A resolution to reappoint PricewaterhouseCoopers Greece as auditors to the Company for the financial year 2017, will be proposed to the Board of Directors.

The Directors' Report was approved by the Board of Directors on 15 September 2017 and was signed on its behalf by:

Anastasios Ioannidis

Director

15 September 2017

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

We have audited the accompanying financial statements of ERB Hellas (Cayman Islands) Limited (the "Company") which comprise the balance sheet as of 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union, and for such internal control as management 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union.

Athens, 15 September 2017

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PricewaterhouseCoopers

pwc

Statement of Comprehensive Income

	Note	Year ended 31 December 2016 €'000	2015 €'000
Interest and similar income	5	**2,288**	9,418
Interest expense and similar charges	6	**(2,291)**	(10,770)
Net Interest Income		**(3)**	(1,352)
Net losses from investment securities		**0**	(60,230)
Net losses from other financial instruments	7	**(0)**	(0)
Foreign exchange gains		**17**	54
Operating expenses	8	**(59)**	(163)
Loss before income tax		**(45)**	(61,691)
Income tax expense	9	**-**	-
Net loss for the year attributable to the owners of the Parent Company		**(45)**	(61,691)
Available for sale securities			
- changes in fair value		**-**	(62,402)
- transfer to (profit)/loss		**-**	60,230
Other Comprehensive Income/Loss		**-**	(2,172)
Total comprehensive loss for the year attributable to the owners of the Parent Company		**(45)**	(63,863)

Notes on pages 14 to 34 form an integral part of these financial statements

Balance Sheet

		At 31 December	
		2016	2015
	Note	**€'000**	€'000
Assets			
Deposits with banks	10	**6,113**	4,427
Investment securities	11	**16,069**	48,227
Other assets		**-**	6
Total assets		**22,182**	52,660
Liabilities			
Liabilities evidenced by paper at amortised cost	13	**16,067**	48,221
Liabilities evidenced by paper designated at fair value	14	**5,374**	3,725
Derivative financial instruments	12	**87**	-
Other liabilities		**26**	41
Total liabilities		**21,554**	51,987
Equity			
Share capital	15	**16**	16
Reserves and retained earnings		**612**	657
Total equity		**628**	673
Total equity and liabilities		**22,182**	52,660

The financial statements on pages 10 to 34 were approved by the Board of Directors on 15 September 2017 and were signed on its behalf by:

Anastasios Ioannidis

Director

Notes on pages 14 to 34 form an integral part of these financial statements

Statement of Changes in Equity

	Share capital €'000	Reserves and retained earnings €'000	Total €'000
Balance at 1 January 2015	16	64,520	64,536
Loss for the year	-	(61,691)	(61,691)
Other Comprehensive Income/Loss	-	(2,172)	(2,172)
Total Comprehensive Income/Loss for the year ended 31 December 2015	-	(63,863)	(63,863)
Balance at 31 December 2015	16	657	673
Balance at 1 January 2016	**16**	**657**	**673**
Loss for the year	-	(45)	(45)
Other Comprehensive Income/Loss	-	-	-
Total Comprehensive Income/Loss for the year ended 31 December 2016	-	(45)	(45)
Balance at 31 December 2016	**16**	**612**	**628**

Notes on pages 14 to 34 form an integral part of these financial statements

Cash Flow Statement

		Year ended 31 December	
		2016	2015
	Note	**€'000**	€'000
Cash flows from operating activities			
Interest and similar income received		**1,921**	6,159
Interest and similar income paid		**(1,907)**	(7,328)
Cash payments to suppliers		**(68)**	(161)
Cash flows from operating activities before changes in operating assets and liabilities		**(54)**	(1,330)
Changes in operating assets and liabilities			
Net decrease/(increase) in deposits with banks		**(1,497)**	132,845
Net cash generated from operating activities		**(1,551)**	131,515
Cash flow from investing activities			
Sales and redemptions of investment securities		**33,911**	105,442
Net cash generated from investing activities		**33,911**	105,442
Cash flows from financing activities			
Proceeds form issue of loan notes		**1,500**	-
Repayments of loan notes		**(33,911)**	(237,101)
Net cash used in financing activities		**(32,411)**	(237,101)
Net decrease in cash and cash equivalents		**(51)**	(144)
Cash and cash equivalents at beginning of year		**702**	846
Cash and cash equivalents at end of year	10	**651**	702

Notes on pages 14 to 34 form an integral part of these financial statements

Notes to the Financial Statements

1. General information

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

2. Accounting policies

2.1 Basis of preparation

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

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

Macroeconomic environment

Greece's real GDP is expected to grow by 2.1% in 2017, according to the May 2017 forecast by European Commission (2016: GDP growth rate at 0.0%). On the fiscal front, the 2016 Greece's primary balance registered a surplus of 4.2% of GDP outperforming the 0.5%-of-GDP Third Economic Adjustment Program (TEAP) target. According to the TEAP the primary surplus for 2017 and 2018 is expected at 1.75% and 3.5% of GDP respectively.

In June 2016, Greece, after the completion of a number of key prior actions, successfully concluded the first review of the Third Economic Adjustment Program (TEAP), which permitted the disbursement of € 10.3 bn from the second instalment of the European Stability Mechanism (ESM) loan in two sub-tranches. Accordingly, the European Central Bank (ECB), acknowledging the commitment of the Greek government to implementing the macroeconomic adjustment program, decided to reinstate the waiver for the instruments issued by the Hellenic Republic and the improvement of the advance rates for providing Eurosystem financing with Pillar II guarantees as collateral. Furthermore, the conclusion of the first review led to a positive ESM decision regarding the implementation of the short-term debt relief measures from 20 January 2017 onwards. The latter measures aim to reduce the interest rate risk for Greece, and to ease the country's repayment burden.

On 22 May 2017, a preliminary technical agreement was reached between Greece and the Institutions in the context of the second review of the TEAP, which had officially started in October 2016. On 15 June 2017, the Eurogroup welcomed the Staff Level Agreement (SLA) reached between Greece and the Institutions after the implementation of a series of prior actions including structural reforms and fiscal structural measures amounting to ca 2% of GDP for the post program period. The SLA paved the way for the release of the next loan tranche to Greece under the existing adjustment program, amounting to € 8.5bn in two sub-tranches, for debt servicing needs and arrears clearance. The first sub-tranche of € 7.7bn has already been disbursed. The second sub-tranche of € 0.8bn is expected to be disbursed in late September 2017 conditional on the significant progress by the Greek authorities towards the clearance of the general government arrears to the private sector that amounted at € 5.4bn at the end of July 2017. On 25 July 2017 the Greek government, on the back of the aforementioned positive developments, issued a € 3 bn

Notes to the Financial Statements (continued)

five-year syndicated bond at a yield of 4.625% for the first time since July 2014. The proceeds of the bond issue will be used for further liability /debt management and for the build-up of a state cash buffer in the context of the 15 June 2017 Eurogroup's decisions.

The completion of the second program review has reduced the uncertainties that prevailed during the first months of the year and improved expectations for an increase in the domestic economic activity in the second half of 2017. The decisive implementation of the reforms agreed in the context of the TEAP, the implementation of further debt relief measures in accordance with 24 May 2016 Eurogroup decisions, the mobilization of European Union (EU) funding to support domestic investment and job creation, the attraction of foreign and domestic capital and the adoption of an extrovert economic development model would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a strong and sustainable growth path.

Currently, the main risks and uncertainties are associated with (a) the possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, (b) the impact on the level of economic activity from the fiscal and social security-related measures agreed under the reviews of the TEAP, (c) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity, (d) the possible slow pace of deposits inflows and/ or possible delays in the effective management of non-performing exposures as a result of the challenging macroeconomic conditions in Greece and (e) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

<u>Liquidity risk</u>

In accordance with the agreement with the European partners the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program. The successful completion of the second review of the TEAP has enhanced Greece's credibility towards the international markets and improved the domestic economic sentiment, which along with the return to positive economic growth rate will facilitate in turn the deposits inflows in the banking system, the faster relaxation of capital controls and the further access to the markets for liquidity.

During 2016, the Parent Company has managed to reduce its dependence on Eurosystem funding amounting to € 13.9 bn at the end of December 2016 (2015: € 25.3 bn), mainly through the increase in repo transactions in the interbank market, the selective assets deleveraging, the deposit inflows and the utilization of a part of foreign subsidiaries' surplus liquidity. As at 31 July 2017, the Eurosystem funding decreased further to € 12.5 bn, of which € 9.9 bn funding from ELA. In the same context, the Bank also reduced its participation in the second stream of the Hellenic Republic's liquidity support plan (bonds guaranteed by the Greek Government) from a face value of € 2.5 bn on 31 December 2016 to a face value of € 1.5 bn on 30 June 2017.

<u>Solvency risk</u>

The Parent Company's Group monitors closely the developments in the Greek macroeconomic environment taking into account its direct and indirect exposure to sovereign risk. A major area of focus is the active management of non-performing exposures at an accelerated pace, with the aim to substantially reduce their stock in accordance with the Bank's operational targets and taking advantage of the Group's internal infrastructure, the important legislative changes and the external partnerships that have taken or are expected to take place.

Notes to the Financial Statements (continued)

The Parent Company's Group remains focused on the organic strengthening of its capital position by the further expansion of pre-provision income while maintaining its robust risk management practices, and by proceeding to additional initiatives associated with the restructuring, transformation or optimization of operations, in Greece and abroad, that will generate or release further capital and/or reduce risk weighted assets. The Group's Common Equity Tier 1 (CET1) ratio stood at 17.4 % at 30 June 2017 and the net profit attributable to shareholders amounted to € 76 million for the period ended 30 June 2017.

<u>Going concern assessment</u>

The Board of Directors, taking into consideration the above factors relating to the adequacy of the Parent Company's capital position and its anticipated continued access to Eurosystem funding over the foreseeable future, as well as the completion of the second review of Greece's current economic adjustment program that reduced the level of uncertainty associated with the domestic macroeconomic environment, has been satisfied that the financial statements of the Company can be prepared on a going concern basis.

The policies set out below have been consistently applied to the years 2016 and 2015, except as described below. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

(a) Amendments to standards adopted by the Company

The following amendments to existing standards as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), which are relevant to the Company, apply from 1 January 2016:

IAS 1, Amendment-Disclosure initiative

The amendment clarifies that an entity need not provide in the financial statements, including the notes, a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and also clarifies that additional disclosures may be necessary if the information required by IFRSs is not sufficient for an understanding of the impact of particular transactions and events on the entity's financial position and performance.

The line items listed in IAS 1 for the balance sheet and the statement of profit or loss should be disaggregated if this is relevant to an understanding of the entity's financial position and additional guidance on the use of subtotals is provided. In the statement of comprehensive income the share of the other comprehensive income of equity-accounted associates and joint ventures should be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss and when determining a systematic approach to presenting notes, the entity should consider the understandability and comparability of its financial statements.

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

Annual Improvements to IFRSs 2010-2012 Cycle

The amendments introduce key changes to seven IFRSs following the publication of the results of the IASB's 2010-12 cycle of the annual improvements project. The topics addressed by these amendments refer, among others, to the following:

- IFRS 13 'Fair Value Measurement': It is clarified that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial; and

Notes to the Financial Statements (continued)

- IAS 24 'Related Party Disclosures': It is clarified that an entity that provides key management personnel services to the reporting entity or to its parent (the management entity) is a related party to the reporting entity and the amounts charged to it for services provided should be disclosed.

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

Annual Improvements to IFRSs 2012-2014 Cycle

The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2012-14 cycle of the annual improvements project. The topics addressed by these amendments refer, among others, to the following:

- IFRS 7 'Financial instruments': Specific guidance is added to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It is also clarified that the additional disclosure required by the amendments to IFRS 7, 'Disclosure-Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34 'Interim financial reporting'; and
- IAS 34 'Interim financial reporting': It is clarified that the reference in the standard to 'information disclosed elsewhere in the interim financial report' means some other statement (such as management commentary or risk report) that is available to users of the financial statements at the same time as the interim financial statements, requiring a cross-reference from the interim financial statements to the location of that information.

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

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

A number of new standards and amendments to existing standards and interpretations are effective after 2016, as they have not yet been endorsed by the European Union or have not been early applied by the Company. Those that may be relevant to the Company are set out below:

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

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

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

IFRS 9, Financial Instruments (effective 1 January 2018)

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

Classification and measurement

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

Notes to the Financial Statements (continued)

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

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

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

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

Business model assessment

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

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

SPPI assessment

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

Impairment of financial assets

IFRS 9 introduces an expected credit loss (ECL) model that replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognized and will apply to a broader population of financial instruments compared to IAS 39.

Notes to the Financial Statements (continued)

The new impairment model will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. No impairment loss will be recognized on equity investments.

The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month ECL will be recognized for financial assets for which there is no significant increase in credit risk since initial recognition. 12-month ECL are the portion of ECL that result from default events that are possible within the next 12 months after the reporting date. For financial assets that have experienced a significant increase in credit risk since initial recognition where no specific loss event has been identified, a loss allowance equal to lifetime expected credit losses will be recognized. The loss allowance for purchased or originated credit impaired financial assets will always be measured at an amount equal to lifetime ECL. Financial assets where 12-month ECL are recognized are considered to be in 'stage-1'; financial assets which have experienced a significant increase in credit risk are in 'stage-2' and financial assets that are credit impaired are in 'stage-3'.

The measurement of expected credit losses will be a probability-weighted average amount that will reflect the time value of money. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered. The new impairment model is expected to result in an increase in the total level of impairment allowances since all financial assets will be assessed for at least 12-month ECL.

Hedge accounting

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

Transition

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

The IFRS 9 implementation program that is monitored centrally by the Parent Company has currently progressed to the built phase focusing on the key processes, methodologies and accounting policies for all IFRS 9 areas.

IFRIC 22, Foreign Currency Transactions and Advance Consideration (effective 1 January 2018, not yet endorsed by EU)

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

Notes to the Financial Statements (continued)

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

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

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

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

2.2 Interest income and expense

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

2.3 Foreign currencies

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

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

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

2.4 Financial assets

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

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

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

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

- it eliminates or significantly reduces measurement or recognition inconsistencies; or

Notes to the Financial Statements (continued)

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

(ii) Loans and receivables

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

(iii) Available-for-sale

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

Accounting treatment and calculation

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

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

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received, including any new asset obtained less any new liability assumed and (ii) any cumulative gain or loss that had been recognized in equity is recognized in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognized as a separate asset or liability.

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

Notes to the Financial Statements (continued)

2.5 Fair value measurement of financial instruments

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

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

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

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

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

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

2.6 Impairment of financial assets

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

(a) significant financial difficulty of the issuer or borrower;

(b) a default or breach of contract;

Notes to the Financial Statements (continued)

(c) significant changes in the financial performance of the borrower that affect the borrower's ability to meet its debt obligations, such as:

-operating losses;

-working capital deficiencies;

-the borrower having a negative equity;

(d) other facts indicating a deterioration of the financial performance of the borrower, such as a breach of terms, or a partial write-off of the borrower's obligations due to economic or legal reasons relating to his financial status;

(e) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

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

(g) significant adverse changes in the borrower's industry or geographical area that could affect his ability to meet its debt obligations;

(h) market related information including the status of the borrower's other debt obligations; and

(i) a significant downgrade in the internal or external credit rating of the borrower's financial instruments when considered with other information;

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

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

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

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

Available-for-sale assets

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial

Notes to the Financial Statements (continued)

asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity investments are not reversed through the profit or loss.

2.7 Financial liabilities

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

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

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

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

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

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

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

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

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

2.8 Cash and cash equivalents

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

2.9 Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivative financial instrument are recognized immediately in the profit or loss. The principles for the fair value measurement of financial instruments, including derivative financial instruments, are described in notes 3 and 12.

Notes to the Financial Statements (continued)

2.10 Offsetting

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

2.11 Related party transactions

Related parties of the Company include:

(a) the Parent Company and entities controlled, jointly controlled or significantly influenced by the Parent Company;

(b) an entity that has control over the Parent Company and entities controlled, jointly controlled or significantly influenced by this entity;

(c) members of key management personnel of the Company or its Parent Company, their close family members and entities controlled or jointly controlled by the above mentioned persons.

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

2.12 Provisions

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

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

2.13 Share capital

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

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

3. Principal risks and uncertainties

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

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

Notes to the Financial Statements (continued)

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

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

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

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

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

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

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

	2015				
	Less than 1 month €' 000	1 - 3 months €' 000	3 months to 1 year €' 000	Over 1 year €' 000	Gross nominal inflow/(outflow) €' 000
Financial liabilities:					
- Loan notes	-	51,360	9	4,680	56,049
Other liabilities	-	-	41	-	41
	-	51,360	50	4,680	56,090

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

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical

Notes to the Financial Statements (continued)

asset or liability is not observable, fair value is measured using another valuation technique that is appropriate in the circumstances, and maximises the use of relevant observable inputs and minimises the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

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

- Level 1 - Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that the Company can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker,industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. None of the Company's financial instruments are categorized into Level 1 of the fair value hierarchy.

- Level 2 - Financial instruments are measured using valuation techniques with inputs other than level 1 quoted prices, observable either directly or indirectly, such as (i) quoted prices for identical financial instruments in markets that are not active, (ii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and (iii) other unobservable inputs which are insignificant to the entire fair value measurement. The Company's financial instruments are categorized into level 2 of fair value hierarchy.

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

Financial instruments carried at fair value

The fair value hierarchy categorization of the Company's financial assets and liabilities carried at fair value at 31 December 2016 and 2015 is presented in the following tables:

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

Notes to the Financial Statements (continued)

	2015			
	Level 1	Level 2	Level 3	Total
	€' 000	€' 000	€' 000	€' 000
Financial assets measured at fair value:				
Deposits with banks	-	3,725	-	3,725
	-	3,725	-	3,725
Financial liabilities measured at fair value:				
Liabilities evidenced by paper designated at fair value	-	3,725	-	3,725
Derivative financial instruments	-	-	-	-
	-	3,725	-	3,725

The Company recognizes transfers into and out of the fair value hierarchy levels at the beginning of the half year in which a financial instrument's transfer was affected. There were no transfers between Level 1 and 2 and vice versa, as well as, no changes in valuation techniques used, during the year ended 31 December 2016.

Company's valuation processes

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

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated against historical data and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel of the Parent Company, independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect also the credit risk of the financial instrument and include adjustments to take into account the credit risk of the Parent Company, where appropriate. The credit risk of the Parent Company is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Parent Company's subsidiaries or other Greek issuers. The valuation models used by the Company have been developed by the Parent Company's appropriate personnel, who also have established the processes and procedures governing the fair valuations. Valuation controls may include verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc.

Financial instruments not carried at fair value

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

Notes to the Financial Statements (continued)

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

	2015				
	Level 1 €' 000	Level 2 €' 000	Level 3 €' 000	Fair Value €' 000	Carrying amount €' 000
Financial assets not measured at fair value:					
Investment securities					
-Debt securities lending portfolio	-	50,513	-	50,513	48,227
	-	50,513	-	50,513	48,227
Financial liabilties not measured at fair value:					
Liabilities evidenced by paper at amortised cost	-	50,513	-	50,513	48,221
	-	50,513	-	50,513	48,221

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

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

4. Critical accounting estimates and judgments

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

4.1 Investment securities at amortised cost

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

4.2 Fair value of financial instruments

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

Notes to the Financial Statements (continued)

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

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

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

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

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

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

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

5. Interest and similar income

	2016	2015
	€' 000	€' 000
Interest income on investment securities	2,286	8,202
Interest income on derivative financial instruments	0	979
Interest income on deposits with the Parent Company	2	237
	2,288	9,418

6. Interest expense and similar charges

	2016	2015
	€' 000	€' 000
Interest expense on liabilities evidenced by paper	(2,289)	(10,510)
Interest expense on derivative financial instruments	(2)	(260)
	(2,291)	(10,770)

Notes to the Financial Statements (continued)

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

	2016 €' 000	2015 €' 000
Changes in fair value of liabilities evidenced by paper	**(136)**	49,615
Changes in fair value of derivative financial instruments managed with liabilities evidenced by paper	**(86)**	1,510
Changes in fair value of deposits managed with liabilities evidenced by paper	**222**	(51,125)
Realized gains/(losses) from financial instuments	**(0)**	(0)
	(0)	(0)

8. Operating expenses

	2016 €' 000	2015 €' 000
Fees payable to the auditor for the non statutory audit of the company's annual financial statements	**(25)**	(35)
EMTN update and other costs	**(34)**	(128)
	(59)	(163)

9. Income tax expense

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

10. Deposits with banks

	2016 €' 000	2015 €' 000
Deposits with the Parent Company designated at fair value	**3,960**	3,725
Deposits with the Parent Company at amortised cost	**2,153**	702
	6,113	4,427
Maturing over 1 year	**5,039**	3,725
With original maturity of less than 90 days (cash and cash equivalents)	**651**	702

11. Investment securities

	2016 €' 000	2015 €' 000
Debt securities lending portfolio	**16,069**	48,227
Maturing over 1 year	**16,069**	48,227

As at 31 December 2016, the Company held unlisted notes issued by the Parent Company of face amount of € 16 million (2015: € 50 million). The notes were classified under debt securities lending portfolio.

During the first half of 2016 the face value of debt securities lending portfolio held by the Company was decreased by € 33,911 ths, following the decrease of loan notes carried at amortised cost, recorded in the same period (note 13).

Notes to the Financial Statements (continued)

Post balance sheet event

During the first half of 2017, the face value of debt securities lending portfolio held by the Company was decreased by € 9,543 ths, following the partial redemption of loan notes carried at amortised cost of equal face value (note 13).

12. Derivative financial instruments

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

	2016			2015		
	Contract/ notional amount	Fair values		Contract/ notional amount	Fair values	
		Assets	Liabilities		Assets	Liabilities
	€'000	€'000	€'000	€'000	€'000	€'000
Derivatives held for trading						
-Interest rate swaps	1,500	-	87	-	-	-
	1,500	-	87	-	-	-

13. Liabilities evidenced by paper at amortised cost

			2016		2015	
	Interest rate %	Currency	Face amount €' 000	Carrying amount €' 000	Face amount €' 000	Carrying amount €' 000
Fixed rate loan notes	9.0	EUR	16,318	16,067	50,229	48,221
			16,318	16,067	50,229	48,221

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

During the year the Company proceeded with the partial redemption of loan notes of face value € 33,911 ths.

Post balance sheet event

During the first half of 2017, the Company proceeded with the partial redemption of loan notes of face value of € 9,543 ths.

14. Liabilities evidenced by paper designated at fair value

	2016 €' 000	2015 €' 000
Loan notes	5,374	3,725
	5,374	3,725

Notes to the Financial Statements (continued)

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

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

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

The loan notes mature in 2017, 2018 and 2021. The Company has not had any defaults on principal, interest or any other breaches with respect to its liabilities during 2016 and 2015.

As at 31 December 2016, the loan notes designated at fair value had a face value of € 6,177 ths and a negative cumulative fair value change of € 802 ths (2015: € 4,663 ths and € 938 ths, respectively).

During the year the Company proceeded with the issue of loan notes of face value of € 1,500 ths.

Post balance sheet event

In August 2017 the Company proceeded with the issue of a loan note of face value of € 1,300 ths.

15. Share capital

	2016	**2016**	2015	2015
	Number	**US$'000**	Number	US$'000
Authorised ordinary shares of US$ 1 each	**50,000**	**50**	50,000	50
Authorised preference shares of US$ 100,000 each	**1,500**	**150,000**	1,500	150,000
Issued ordinary shares of US$ 1 each	**50,000**	**50**	50,000	50
Allotted and paid up 49,999 ordinary shares at US$ 0.30 per ordinary share and 1 ordinary share at US$ 1	**50,000**	**15**	50,000	15

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

Post balance sheet event

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

16. Related party transactions

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

In November 2015, following the completion of the Bank's share capital increase, fully covered by investors, institutional and others the percentage of the Parent Company's ordinary shares with voting rights held by the HFSF decreased from 35.41% to 2.38%. Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over the Bank based on the provisions

Notes to the Financial Statements (continued)

of L. 3864/2010 and the new Relationship Framework Agreement (RFA) the Bank has entered into with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014.

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

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

	31 December 2016		31 December 2015	
	Parent Company	**Parent Company's subsidiaries**	Parent Company	Parent Company's subsidiarie
	€' 000	**€' 000**	€' 000	€' 000
Deposits with banks	**6,113**		4,427	-
Invetsment securities	**16,069**	-	48,227	-
Liabilities evidenced by paper at amortised cost	**1,696**	-	20,172	-
Liabilities evidenced by paper designated at fair value	**947**	-	117	-
Derivative financial instruments (liabilities)	**87**	-	-	-
Interest and similar income	**2,288**	-	8,439	979
Interest expense and similar charges	**(75)**	-	(3,304)	(262)
Realized gains/(losses) from investment securities	**-**	-	(60,230)	-

Emoluments of directors

The directors provide services to a number of Group companies for which are compensated by the Parent Company. Accordingly, these financial statements include no emoluments in respect of any director as it is not practicable to apportion the salary element. The Company employed no staff during 2016 and 2015.

17. Segmental reporting

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

18. Subsequent events

There are no significant subsequent events warranting disclosure.