

# ANNUAL FINANCIAL REPORT 2017



**HELLENIC  
FINANCIAL  
STABILITY FUND**

FOR THE YEAR  
ENDED 31.12.2017  
JULY 2018

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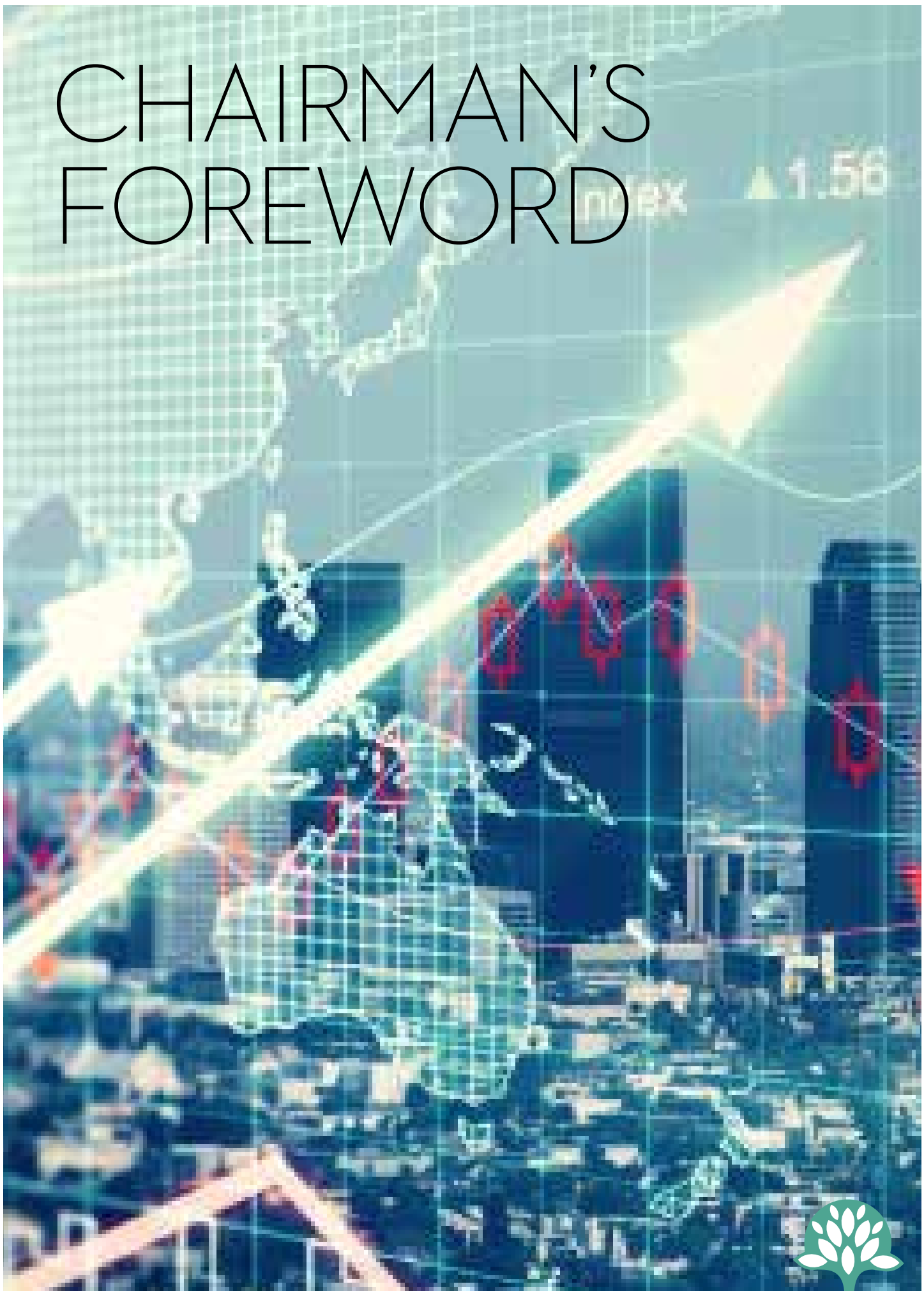
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# CHAIRMAN'S FOREWORD



In the year 2017 the Hellenic Financial Stability Fund (HFSF) continued to successfully fulfil its critical role for the stability of the Greek banking system by supporting the efforts of the systemic banks to return to sustainable profitability.



The previous year was a turning point for the Greek banking system. Greek systemic banks returned to core profitability and kept their capital ratios at sustainable levels. The successful completion of the recent stress tests conducted by the ECB bears testament to the efforts made by HFSF in cooperation with the banks to reinforce the stability of the Greek banking system.

To this end, the initiatives undertaken by HFSF included among others the evaluation of the governance framework and performance of the Greek systemic banks and the issuance of guidelines on the Board of Directors selection and appointment process.

HFSF promoted appropriate strategies adopted by banks to reduce the stock of non-performing exposures to more sustainable levels and meet the agreed targets.

In addition, HFSF continued to monitor the timely implementation of the restructuring plans of systemic banks and assist them in optimizing operating costs by streamlining operations and completing their divestment commitments refocusing their resources onto Greek banking operations.

Finally, HFSF continued to fulfil its shareholder and statutory role by fully exercising its rights derived from the Relationship Framework Agreements (RFA) and actively participating in the Board of Directors meetings through its representatives with a view to protecting its shareholding interests and promoting value creation.

The macroeconomic backdrop in Greece supported our efforts to safeguard the Greek banking system. The Greek economy returned to growth in 2017 expanding at a rate of 1.4% and the unemployment rate declined to 20.8%. Even though challenges remain, the outlook for Greek banks remains positive. Private deposits increased in 2017 proving that the Greek banking system is gradually recovering public confidence. Liquidity withdrawn under the emergency liquidity mechanism (ELA) is continuously dropping and together with the increased interbank and debt issues banks diversified their funding sources.

In conclusion, as Greece is preparing to leave the years of crisis behind, HFSF is entering a new era going forward with the view to promoting the banks' return to private ownership while continuing to fulfil its financial stability role for the sake of public interest.

Chairman of HFSF

**Andreas Verykios**



# GENERAL COUNCIL AND EXECUTIVE BOARD REPORT



# BUSINESS OVERVIEW



# HFSF'S MANDATE

## HFSF'S FOUNDING LAW

The Hellenic Financial Stability Fund (Fund or HFSF) was founded in July 2010 (under Law 3864/2010) as a private legal entity and does not belong to the public sector. It has administrative and financial autonomy, operates exclusively under the rules of the private economy and is governed by the provisions of the founding law as in force.

The purely private nature of the Fund is neither affected by its entire capital being subscribed by the Greek government, nor by the issuance of the relevant decisions by the Minister of Finance (MoF).

The Fund's Headquarters are in Athens and its duration is up to December 31st, 2022. By decisions of the Minister of Finance, the duration of the Fund may be extended, if deemed necessary for the fulfilment of its scope.

## OBJECTIVE OF THE FUND

The purpose of the Fund is to contribute to the maintenance of the stability of the Greek banking system, for the sake of public interest and acts in line:

- i. with the relevant commitments under the Memorandum of Understanding ( MoU),
- ii. in compliance with the obligations arising from the Master Financial Facility Agreement (MFAFA) signed on 15/03/2012 and
- iii. the new Financial Assistance Facility Agreement (new FAFA) signed on 19/08/2015.

## THE FUND'S SCOPE OF WORK

Within the framework of accomplishing its objective, the Fund should manage its capital and its assets and exercise the rights in its capacity as shareholder in such a way, as to protect the value of such assets, to minimize the risks for the Greek public and neither prevent nor distort the competition in the banking sector.

In addition, the Fund may provide guarantees to States, international organizations or other recipients and generally, take any action required for the implementation of decisions of the Euro area bodies concerning the support of the Greek economy. The scope of the Fund does not include the provision of liquidity assistance, which is provided according to Law 3723/2008 or according to the operating framework of the Eurosystem and the Bank of Greece.





## THE FUND'S TASKS

In pursuing this objective, the HFSF:

- a. **Provides capital support to credit institutions** according to the provisions of the present Law in compliance with EU state aid rules.
- b. **Monitors and assesses how credit institutions, to which capital support is provided by the Fund, comply with their restructuring plans**, safeguarding at the same time the business autonomy of the credit institution. The Fund ensures that such credit institutions operate on market terms and that private sector participation in them is enhanced on the basis of transparent procedures and on the EU legislation on state aid.
- c. **Exercises its shareholding rights** deriving from its participation in the credit institutions to which capital support is provided by the Fund, as these rights are defined in this law and in relationship framework agreements entered into with such credit institutions, according to paragraph 4 of Article 6 of this Law in compliance with the rules of prudent management of the assets of the Fund and in line with the rules of the European Union with respect to State aid and competition.
- d. **Disposes in whole or partially, of financial instruments issued by the credit institutions in which it participates**, according to the provisions of Article 8.
- e. **Provides loan to the Hellenic Deposit and Investment Guarantee Fund (HDIGF) for resolution purposes** according to the provisions of article 16.
- f. **Facilitates the management of the non-performing loans** of the credit institutions.
- g. **Enters into Relationship Framework Agreements (RFAs)** or amended relationship framework agreements, as provided in paragraph 4 of article 6, with all credit institutions that are or have been beneficiaries of financial assistance by the European Financial Stability Fund (EFSF) and the European Stability Mechanism (ESM) in order to provide for the implementation of its objectives and rights, including special rights as defined in article 10, as long as the Fund hold shares or other capital instruments or the Fund monitors the restructuring plans of the above said credit institutions.
- h. **Exercises its shareholding rights deriving from the transfer to it of the common shares or cooperative shares in credit institutions**, according to the last subpar. of par. 6 of art. 27A of L.4172/2013 (A' 167), as these rights are defined in this Law and in the relationship framework agreements of the previous subparagraph g, in compliance with the rules of prudent management of the assets of the Fund and in line with the rules of the European Union with respect to State aid and competition. The previous subparagraph g is applicable proportionally also for the common shares or cooperative shares of this subparagraph.
- i. **Exercises the voting rights** deriving from the participation of entities of the General Government in the share capital of credit institutions, which is assigned to it either by virtue of legislative or regulatory provisions, or by virtue of decisions of the competent each time administrative bodies of the said entities, according to this Law and special agreements entered into with the above entities for this purpose.



## HFSF's resolution loan to HDIGV

From the date of the enactment of Law 4051/2012 (Government Gazette A 40/29.2.2012) as amended by Law 4224/2013, **the Fund covered the amount that the Hellenic Deposit & Investment Guarantee Fund (HDIGF) would have paid for the process of the resolution of the credit institutions in accordance to Law 4261/2014 until 31/12/2014.** Specifically the Fund was obliged to pay the amount as per paragraph 13 of article 141 and paragraph 7 of article 142 of the aforementioned law. In this case, the Fund was obliged to acquire the right and the privilege of the HDIGF in accordance with the paragraph 4 of Article 13A of Law 3746/2009. The provision was amended in December 2014 by art.96 of the Law 4316/2014. According to Law 4340/2015 (Government Gazette A 134/1.11.2015) and Law 4346/2015 (Government Gazette A 152/20.11.2015) the Fund may grant a resolution loan as defined in the new FAFA of 19/08/2015 to the HDIGF for the purposes of funding bank resolution costs, subject to the provisions of the aforementioned facility agreement and in line with the EU State aid rules.

The monitoring and supervision of the actions and decisions of the bodies of the special liquidation of the credit institutions do not fall within the functions of the Fund.

## Formation of the Hellenic Company of Assets & Participations SA

The Hellenic Corporation of Assets and Participations was founded under the Law 4389/2016 (Government Gazette 94/27.05.2016).

**Although HFSF is its direct subsidiary, the administrative autonomy and independence of the HFSF is not affected according to the provisions of the Law 4389/2016.**



# BUSINESS HIGHLIGHTS IN 2017

## KEY MILESTONES

### HFSF's role in the evaluation of Systemic Banks' Board of Directors and corporate governance framework.

In August 2017, the Hellenic Financial Stability Fund (HFSF) completed the review and evaluation of the Boards of Directors and Boards' committees of the systemic Greek banks (Alpha Bank, Eurobank, National Bank of Greece and Piraeus Bank), in line with law 3864/2010 (HFSF Law), the Supplemental Memorandum of Understanding signed on 5 July 2017 between the European Commission, the Hellenic Republic and the Bank of Greece and the Relationship Framework Agreements' (RFA) provisions applying to systemic Greek banks.

The HFSF made significant progress in 2016 in strengthening the governance of Greek systemic banks by conducting an evaluation of the Greek systemic banks' Boards of Directors. As a result of this evaluation, the banks have notably improved their governance, succeeding to attract new highly skilled and experienced Board members, as well as, largely implementing the HFSF's recommendations on corporate governance improvement.

### Between November 2015, when Board members' eligibility criteria were introduced in the HFSF Law, and 31 December 2017:

**59%** OF TOTAL BOARD MEMBERS  
(excluding State and HFSF Representatives)  
HAVE BEEN REPLACED

**73%** OF TOTAL NON-EXECUTIVE  
DIRECTORS  
(excluding State and HFSF Representatives)  
HAVE BEEN REPLACED

**68%** FOREIGN NEDS  
banks have succeeded in bringing  
INTERNATIONAL EXPERIENCE  
IN THEIR BOARDS



The 2017 review aims to ensure that banks, which face a difficult economic environment and a high level of Non-Performing Loans (NPL), are managed in line with best international practices and supervisory guidelines. Through this evaluation exercise, the HFSF has provided specific recommendations for improvement of the banks' corporate governance arrangements, focusing on the Board of Directors and its Risk and Audit Committees, establishing in parallel a culture of evaluation and discipline on a regular basis.

According to the 2017 review, the results of which have been communicated to the banks, there is significant improvement in the bank Boards' composition, skills and focus. Additional actions are needed for the enhancement of risk culture and internal control framework in order to further stimulate organizational transformation. With the completion of the review and the proposed actions, the HFSF promotes further enhancement of the corporate governance of the largest Greek banks and safeguards that the current challenging economic environment and the NPL issue, will be better addressed by the Greek banking sector.

The Fund concluded the 2017 review with the assistance of an international premier consulting firm. The project was funded by the HFSF and the European Union through the European Bank for Reconstruction and Development Technical Cooperation Fund for International Financial Institutions - Project-Financing in Greece.

## **HFSF'S ROLE IN THE RESOLUTION OF NON-PERFORMING LOANS (NPL)**

**As per the provisions of the MoU signed on 19/08/2015, the HFSF in cooperation with BoG, conducted a study to identify non-regulatory constraints and impediments to the development of a dynamic NPL market in Greece.**

During the initial study, impediments were identified, analyzed and grouped per broad category, i.e. legal and judicial, tax and accounting, administrative and other impediments. The study was completed and presented to the Authorities, in October 2015. Subsequently and as specified in the Supplemental MoU signed on 16/06/2016, the HFSF in cooperation with BoG, updated the aforementioned study, and proposed concrete actions regarding all remaining non-regulatory impediments to the development of a dynamic NPL market. The updated study was completed and the report was published on HFSF's web site in September 2016.

In June 2017, HFSF prepared a progress update, in collaboration with a specialized legal firm, on HFSF study on NPL Market Impediments. The views regarding the progress on the identified impediments represent to the best of HFSF's knowledge, the current framework and what has been legislated up to 31/5/2017.

In December 2017, as part of HFSF's continuous efforts to assist in the NPLs' resolution, proceeded to a second update of its study on the NPL Market impediments, with the assistance of a specialized legal firm. The analysis constitutes the second update of HFSF's initial study to identify major non-regulatory constraints and impediments to the development of a dynamic Non Performing Loans' (NPL) market in Greece. The purpose of the study was twofold:



- a. To provide a new update of the remaining impediments that should be addressed in order to foster the development of a dynamic NPL market and the debt overhang problem, both from the demand and supply sides of the market;
- b. To identify any new potential impediments that might have occurred within the context of the recent legal & judicial developments.

Any impediments that had been identified in the second update represent, to the best of HFSF's knowledge what has been legislated up to 30/11/2017, without taken into consideration any initiatives following that date.

## PROCEEDS RECEIVED AND CAPITAL REPAYMENT

€140million of receivables  
from banks under liquidation

During 2017, the Fund received €139.81 million  
from banks under liquidation.

€165million of income received by  
Piraeus Bank from Cocos annual coupon

In December 2017, the Fund received proceeds from annual coupon  
amounting to €165.46m from Piraeus Bank.

€2billion of the Greek public debt was  
repaid following the Fund's initiative and  
the successful repayment of Cocos.

NBG proceeded with the redemption of its CoCos in line with  
the Bank's commitment to its restructuring plan and following  
the approval given by SSM.

On 11/12/2017 the ninth and last exercise of Alpha Bank's warrants took place. There were 6,608 warrants exercised and 979 shares exchanged, resulting to the Fund receiving €27,143. The outstanding warrants on that date were automatically expired and cancelled. On 27/12/2017 the ninth and last exercise of NBG Bank's warrants took place. There were 2,538 warrants exercised and 1,391 shares exchanged, resulting to the Fund receiving €112,804. The outstanding warrants on that date were automatically expired and cancelled.



# SIGNIFICANT EVENTS OCCURRED IN 2018

Following the reporting date of the annual financial statements, the following events, related to the HFSF, took place:

## **AMMENDMENTS TO THE HFSF LAW**

On 14/06/2018, some articles of HFSF Law 3864/2010 were amended according to article 114 of L. 4559/2018. The main amendments were the extension of the Fund's mandate from June 2020 to end-2022 and the widening of its objectives through the ipso jure transfer of any future ordinary shareholdings of the state in banks to the Fund. Specifically, following potential conversions of deferred tax credits (DTCs) the HFSF will receive all ownership rights, including voting rights, to the bank shares that the Greek State would receive, while the economic benefit from the shares, including any proceeds from their sale, will be retransferred to the State, upon request.

Moreover, according to article 114 of Law 4549/2018, a new subparagraph in paragraph 2, article 2 of Law 3864/2010 (Objective of the Fund) has been inserted providing that the HFSF exercises the voting rights deriving from the participation of entities of the General Government in the share capital of credit institutions, which are assigned to it either by virtue of legislative or regulatory provisions, or by virtue of decisions of the competent each time collective administrative bodies of the said entities, according to this Law and special agreements entered into with the above entities for this purpose.

The unofficial codification of HFSF Law as well as the detailed recent amendments of L. 4559/2018 are presented in the Fund's website ([http://hfsf.gr/en/hfsf\\_law.htm](http://hfsf.gr/en/hfsf_law.htm)).

## **AMENDMENT OF L. 4549/2018**

According to article 114 of Law 4549/2018, a new paragraph in article 70 of Law 4387/2016 (Assets of EFKA) has been inserted providing that the voting rights deriving from the common shares of EFKA in credit institutions, are exercised by the HFSF, if the participation of EFKA in the share capital of the said credit institutions exceeds 33%, per credit institution, and only for the exceeding percentage. EFKA shall enter into special agreements with the HFSF, for the regulation of the specific details regarding their relationships.

## **CORPORATE GOVERNANCE GUIDELINES FOR THE SYSTEMIC BANKS**

Following the completion of the 2017 assessment of the Board and the corporate governance arrangements of the Greek systemic banks and taking into consideration that banks were in the process of searching new Board members, the HFSF considered important to publish its updated Guidelines on the Board of Directors' selection and appointment process of Greek systemic banks. This HFSF's initiative is part of its strategic objectives to continue its efforts to provide and promote best practices and standards aiming at improving corporate governance framework and Board performance of the systemic Greek banks.



As such, on 6th of March 2018, HFSF published its revised Guidelines updating the respective Guidelines, communicated to the Greek systemic banks, in February 2016 in order to assist banks to improve their Board nomination policies, whilst ensuring a formal and transparent selection and appointment process for Board members.

## **COMPLETION OF ESM/EFSF BONDS EXCHANGE**

In January 2018 the exchange of €29.6 billion of ESM/EFSF Notes held by the four systemic banks as agreed with ESM was completed. This transaction is part of the short term debt relief measures. The Fund undertook the role of the coordinator in the implementation of the transactions up to the completion of the exchange of the ESM bonds.

## **NPL MARKET IMPEDIMENTS**

In June 2017, HFSF prepared a progress update on HFSF study on NPL Market Impediments, where 44% of the identified impediments were completed, in 23% some progress has been made but the issue has not been resolved and finally 33% of the identified issues have not been agreed or addressed satisfactorily. The views regarding the progress on the identified impediments represent to the best of HFSF's knowledge, the current framework and what has been legislated up to 31/5/2017. Any initiatives that are currently work in progress have not been taken into consideration. HFSF has collaborated with a specialized legal firm to follow up on the progress of the identified impediments. It should be noted that in several cases, the Authorities have a different perception regarding the existence or/and of the progress made on some of the impediments.

## **FINAL EXERCISE DATE AND CANCELLATION OF WARRANTS**

In accordance with the provisions of Law 3864/2010 and Cabinet Act 38/2012, in combination with Cabinet Act 6/2013, the warrants which have not been exercised until the ninth and final exercise shall automatically expire and be cancelled by the HFSF. The date for the final exercise of Piraeus Bank was the 2nd January of 2018 in the context of which 7,136 warrants have been exercised and 15 shares exchanged, resulting to the Fund receiving €64,260. The outstanding warrants on that date were automatically expired and cancelled.



# FINANCIAL OVERVIEW





# KEY FINANCIAL INDICATORS

STATEMENT OF FINANCIAL POSITION		
AMOUNTS IN € MILLIONS	31/12/2017	31/12/2016
Cash and balances with Banks	1,036	2,737
Financial assets at fair value through profit or loss	3,812	3,767
Receivables from banks under liquidation	1,651	1,862
Other assets	14	10
<b>TOTAL ASSETS</b>	<b>6,515</b>	<b>8,377</b>
<b>TOTAL LIABILITIES</b>	<b>2</b>	<b>6</b>
Capital	42,164	44,193
<b>TOTAL EQUITY</b>	<b>6,513</b>	<b>8,371</b>

## €1,701 MILLION DECREASE IN CASH AND BALANCES WITH BANKS AS COMPARED TO 31/12/2016 RESULTING FROM:

€2,029m capital decrease - return to the Hellenic Republic

- €165m relating to the income of CoCos
- €140m collections from banks under liquidation
- €30m relating to the proceeds of the cash management account
- €7m outflows relating to various payments

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OF LOSS:

The balance includes the Fund's investments in the four systemic banks and the CoCos issued by Piraeus Bank. As of 31/12/2017 the market value of shares amounted to €1.9 billion versus €1.8 billion as of 31/12/2016.

The value of Piraeus Bank CoCos amounted to € 1.9 billion as of 31/12/2017 versus € 2.0 billion as of 31/12/2016 based on the valuation performed by an independent valuation expert.

## RECEIVABLES FROM BANKS UNDER LIQUIDATION:

The balance includes the estimated recoverable amount of the funding gap, which has been covered by the Fund instead of the HDIGF, and amounted to €1,651m as of 31/12/2017 versus €1,862m as of 31/12/2016.

During 2017, the Fund collected from the banks under liquidation the amount of €140m and recognized an impairment loss of €71m in the statement of comprehensive income.



**The final liquidation proceeds may vary from the estimated recoverable amount as the liquidation process is a dynamic process and the proceeds are subject to factors beyond the liquidators control such as the macroeconomic outlook.**

## **EQUITY:**

During 2017, the profit amounted to €171m and the accumulated loss decreased to €35,651m from €35,822m as of 31/12/2016. **The capital amounted to €42,164m as compared to €44,193m as of 31/12/2016.**

<b>STATEMENT OF COMPREHENSIVE INCOME</b>		
<b>AMOUNTS IN € MILLIONS</b>	<b>01/01/2017 - 31/12/2017</b>	<b>01/01/2016 - 31/12/2016</b>
Interest income	35	16
Income from CoCos	165	334
Personnel expenses	(3)	(3)
General administrative & other operating expenses	(5)	(6)
Impairment of receivables from banks under liquidation	(71)	(160)
Gain/(Loss) from financial instruments at fair value through profit or loss	50	(650)
Profit/(Loss) for the period	171	(469)

## **€35 MILLION INTEREST INCOME:**

Interest income amounted to €35m versus €16m in 2016. The interest income of 2017 represents the proceeds from the Fund's deposits in the cash management account.

Further information is provided in Note 13.

## **€165 MILLION INCOME FROM COCOS:**

The Fund received in cash the total amount of €165m relating to the annual coupon of CoCos from Piraeus Bank.

Further information is provided Note 14.

## **PERSONNEL EXPENSES:**

During 2017, the personnel expenses amounted to €2.9m versus €2.7m in 2016.

Further information is provided in Note 15.

## **GENERAL ADMINISTRATIVE AND OTHER OPERATING EXPENSES:**

The Fund had general administrative and operating expenses €4.8m including the advisory fees in relation to the sales of NBG's and Piraeus's subsidiaries and some additional projects undertaken by HFSF.

Further information is provided in Note 16.

## **IMPAIRMENT OF RECEIVABLES FROM BANKS UNDER LIQUIDATION:**

The impairment Gain/(Loss) of receivables from banks under liquidation amounted to €71m loss at 31/12/2017 versus €160m loss at 31/12/2016.

Further information is provided in Note 9.



## **INCREASE OF GAINS FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS.**

The gain from financial instruments at fair value through profit or loss amounted to €50 million: The €50m gain in 2017 corresponds to the financial result from the revaluation of bank's shares, warrants and CoCos held by the Fund.

The €50m gain in 2017 corresponds to the financial result from the revaluation of bank's shares, warrants and CoCos held by the Fund.

The €50m gain is mainly due to the revaluation gain of the Fund's participation in the four systemic banks which is partially offset by the valuation of CoCos and specifically:

- a. the revaluation result of shares (2017: €126m gain, 2016: €631m loss)
- b. the revaluation result of warrants (2017: €4m gain , 2016: €0.5m loss)
- c. the revaluation result of CoCos (2017: €80m loss, 2016: €19m loss)

Further information is provided in Note 17.



# OVERVIEW OF THE FUND'S PORTFOLIO

As of the end of December 2017, the HFSF participated in the systemic banks' share capital, holding a significant number of shares as per below:

<b>NBG</b>  40.39% Out of which 1.47% with restricted voting rights	<b>Piraeus Bank</b>  26.42% Out of which 0.47% with restricted voting rights	<b>Alpha Bank</b>  10.96% In full restricted voting rights	<b>Eurobank</b>  2.38% In full restricted voting rights
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During the course of 2017, there was no significant change in the HFSF's shareholdings. Due to market volatility the stock prices were up by c. 29% for NBG and by 32% for Eurobank and down by 27% for Piraeus Bank and 6% for Alpha Bank year on year.

The HFSF has appointed a Representative to each Bank under Law 3864/2010 in order to ensure the exercising of its rights that stem from its shareholding to banks' share capital, the implementation of the Restructuring Plans and the Relationship Framework Agreement as in force. The current Representatives for each Bank are presented in the below tables<sup>1</sup>:

<b>NBG</b>  Mr. Christoforos Koufalias	<b>Piraeus Bank</b>  Mr. Per Anders Fasth	<b>Alpha Bank</b>  Mr. Frederic-Jan Umbgrove	<b>Eurobank</b>  Ms. Aikaterini Beritsi
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<sup>1</sup> Pre & Post events:  
In February 2017 Mr. Spyridon-Stavros A. Mavrogalos-Fotis replaced Mrs. Panagiota Iplixian.  
In March 2017 Mrs. Panagiota Iplixian replaced Mr. Panagiotis Leftheris, who was appointed on July 2016 in replacement of Mr. Charalampos Makkas.  
In May 2018 Mr. Christoforos Koufalias replaced Mrs. Panagiota Iplixian.



The HFSF, as part of its mandate to monitor and evaluate the proper implementation of the approved Restructuring Plans and the respective DG Comp commitments, has assisted banks to:

1. Enhance governance standards which ensure that banks' are setting up an efficient and adequate internal control system.
2. Put in place their NPL reduction strategies and comply with the regulator's agreed targets aiming to reduce NPEs of Greek Banks by 2020 to more sustainable levels
3. Reduce banks' funding costs
4. Optimize generating costs by streamlining the banks' platforms and operations.
5. Complete their divestment commitments refocusing their resources into Greek banking operations



# NATIONAL BANK OF GREECE

## OVERVIEW

National Bank of Greece (NBG) is a Bank registered in Greece and its headquarters are located in Athens ([www.nbg.gr](http://www.nbg.gr)).

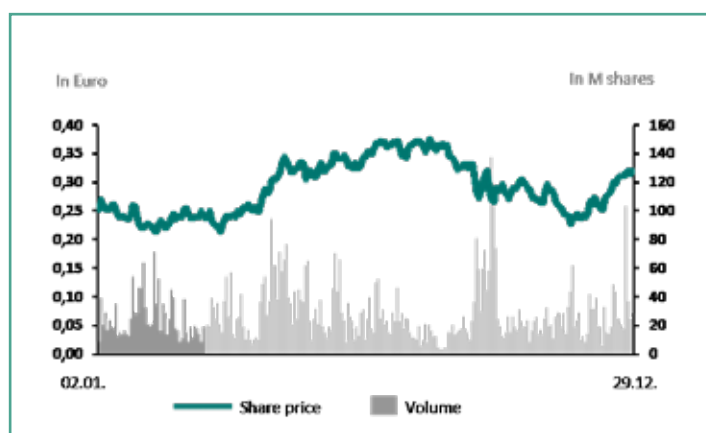
Its shares are listed on the Athens Exchange and on the New York Stock Exchange in the form of ADRs.

NBG and its subsidiaries provide a wide range of financial services including retail and commercial banking, asset management, brokerage, investment banking, insurance, real estate and other services. The Group operates in Greece, United Kingdom, Romania, FYROM, Cyprus, Malta, Egypt, and South Africa.

The table and the graph below provide an overview of the key financial results for NBG and its share price performance for 2017, respectively:

Key financial figures <sup>2</sup>	
<b>Asset size figures</b>	
Total assets (€ billion)	64.8
Gross Loans (€ billion)	48.2
Deposits (€ billion)	40.3
Equity (€ billion)	7.4
<b>Liquidity</b>	
Loans to Deposits Ratio (%)	79.6
Eurosystem Funding (€ billion)	2.8
o/w ELA exposure (€ billion)	0.0
<b>Profitability</b>	
NIM (%)	3.1
Cost to Income Ratio (%)	52.7
<b>Asset quality</b>	
NPE Ratio (%)	44.0
NPE Coverage (%)	55.1
Cost of Risk (%)	2.4
<b>Capital</b>	
CET1 (%)	17.0

## NBG'S SHARE PRICE PERFORMANCE<sup>3</sup>



<sup>2</sup> As included in Bank's published financial information for the year ended 31/12/2017

<sup>3</sup> Source: Bloomberg



# PIRAEUS BANK

## OVERVIEW

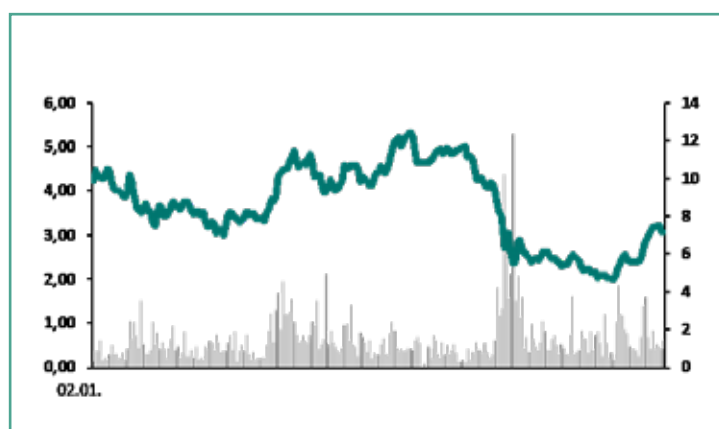
Piraeus Bank is a Bank registered in Greece and its headquarters are located in Athens ([www.piraeusbankgroup.com](http://www.piraeusbankgroup.com)).

Its shares are listed on Athens Exchange. Piraeus Bank and its subsidiaries provide a wide range of financial services including retail and commercial banking, asset management, brokerage, investment banking, insurance, real estate and other services. The Group operates in Greece, Romania, Bulgaria, Albania, Serbia, Ukraine, United Kingdom, Luxemburg, Germany, Cyprus, Egypt, Liberia, Panama, BVI and USA.

The table and the graph below provide an overview of the key financial results for Piraeus Bank and its share price performance for 2017, respectively:

Key financial figures <sup>4</sup>	
<b>Asset size figures</b>	
Total assets (€ billion)	67.4
Gross Loans (€ billion)	54.4
Deposits (€ billion)	42.7
Equity (€ billion)	9.5
<b>Liquidity</b>	
Loans to Deposits Ratio (%)	104.7
Eurosystem Funding (€ billion)	9.7
o/w ELA exposure (€ billion)	5.7
<b>Profitability</b>	
NIM (%)	2.7
Cost to Income Ratio (%)	53.0
<b>Asset quality</b>	
NPE Ratio (%)	56.0
NPE Coverage (%)	52.1
Cost of Risk (%)	4.8
<b>Capital</b>	
CET1 (%)	15.1

## PIRAEUS BANK'S SHARE PRICE PERFORMANCE<sup>5</sup>



<sup>4</sup> As included in Bank's published financial information for the year ended 31/12/2017

<sup>5</sup> Source: Bloomberg.



# ALPHA BANK

## OVERVIEW

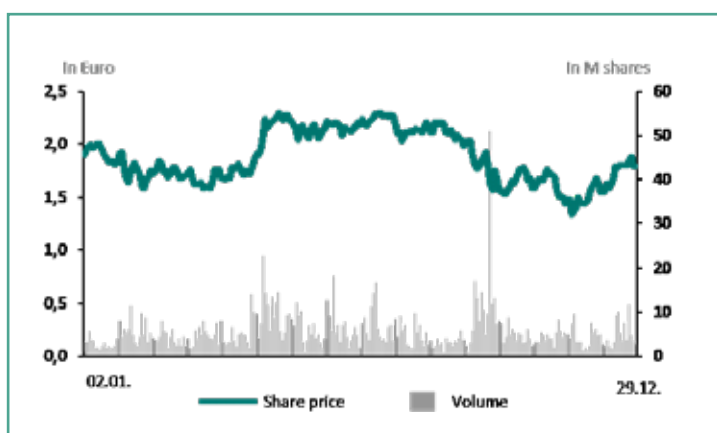
Alpha Bank is a Bank registered in Greece and its headquarters are located in Athens ([www.alpha.gr](http://www.alpha.gr)).

Its shares are listed in the Athens Exchange and in the form of American depository receipts (ADRs) in the New York Stock Exchange. Alpha Bank and its subsidiaries offer a wide range of services including corporate and retail banking, financial services, investment banking and brokerage services, insurance services, real estate management and other services. The Group operates in Greece, Cyprus, Romania, Serbia, Albania and United Kingdom.

The table and the graph below provide an overview of the key financial results for Alpha Bank and its share price performance for 2017, respectively:

Key financial figures <sup>6</sup>	
<b>Asset size figures</b>	
Total assets (€ billion)	60.8
Gross Loans (€ billion)	54.3
Deposits (€ billion)	34.9
Equity (€ billion)	9.6
<b>Liquidity</b>	
Loans to Deposits Ratio (%)	124.1
Eurosystem Funding (€ billion)	10.2
o/w ELA exposure (€ billion)	7.0
<b>Profitability</b>	
NIM (%)	3.1
Cost to Income Ratio (%)	47.6
<b>Asset quality</b>	
NPE Ratio (%)	51.7
NPE Coverage (%)	45.0
Cost of Risk (%)	1.7
<b>Capital</b>	
CET1 (%)	18.3

## ALPHA BANK'S SHARE PRICE PERFORMANCE<sup>7</sup>



<sup>6</sup> As included in Bank's published financial information for the year ended 31/12/2017

<sup>7</sup> Source: Bloomberg





# EUROBANK

## OVERVIEW

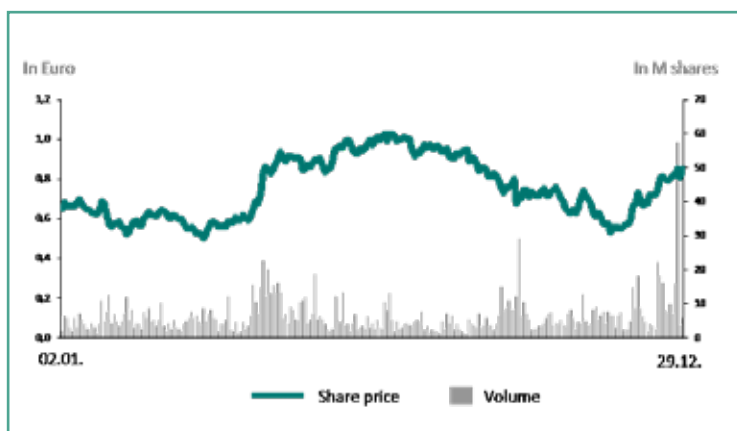
Eurobank Ergasias S.A. (Eurobank) is a Bank registered in Greece and its headquarters are located in Athens ([www.eurobank.gr](http://www.eurobank.gr)).

Its shares are listed on the Athens Exchange. Eurobank and its subsidiaries offer a wide range of services including: retail, corporate and private banking, asset management, insurance, treasury, capital markets and other services. The Group operates in Greece, Luxemburg, United Kingdom, Romania, Bulgaria, Serbia, Holland and Cyprus.

The table and the graph below provide an overview of the key financial results for Eurobank and its share price performance for 2017, respectively:

Key financial figures <sup>8</sup>	
<b>Asset size figures</b>	
Total assets (€ billion)	60.0
Gross Loans (€ billion)	47.2
Deposits (€ billion)	33.8
Equity (€ billion)	7.2
<b>Liquidity</b>	
Loans to Deposits Ratio (%)	109.6
Eurosystem Funding (€ billion)	10.0
o/w ELA exposure (€ billion)	7.9
<b>Profitability</b>	
NIM (%)	2.4
Cost to Income Ratio (%)	47.5
<b>Asset quality</b>	
NPE Ratio (%)	42.6
NPE Coverage (%)	50.4
Cost of Risk (%)	2.0
<b>Capital</b>	
CET1 (%)	15.3

## EUROBANK'S SHARE PRICE PERFORMANCE<sup>9</sup>



<sup>8</sup> As included in Bank's published financial information for the year ended 31/12/2017

<sup>9</sup> Source: Bloomberg



# HFSF'S CORPORATE GOVERNANCE



# DECISION-MAKING BODIES

The decision-making bodies of the Fund are the General Council and the Executive Board.

## General Council

The General Council consists of seven (7) non-executive members, five (5) of which, including the Chairman, are persons with international experience in banking matters, one member represents the Ministry of Finance (MoF) and one member is nominated by the Bank of Greece (BoG).

## Executive Board

The Executive Board consists of three (3) members, two (2) of which, including the Chief Executive Officer, are persons with international experience in banking matters or in matters relating to the resolution of credit institutions and one member is nominated by the BoG.

### APPOINTMENTS

The members of the General Council, except for the representative of the Ministry of Finance and the nominee from the Bank of Greece, as well as the members of the Executive Board except for the nominee from the Bank of Greece are selected by the Selection Panel and appointed by a decision of the Minister of Finance, with the prior agreement of the Euro Working Group. The Selection Panel is composed of six (6) independent expert members, of recognized integrity, of which:

- Three (3), including the Chairman, are appointed by the European Commission, the European Central Bank and the European Stability Mechanism, respectively
- Two (2) by the Minister of Finance and
- One (1) by the Bank of Greece.

The responsibilities of the Selection Panel are described in the art. 4a of Law 3864/2010.

### AUTONOMY STATUS

The members of the General Council and the Executive Board, except for the representative of the MoF in the General Council, enjoy full autonomy and do not seek or receive instructions from the Greek State or any other state body or institution, or financial institution supervised by the BoG.

With an aim of achieving its objective of contributing to the maintenance of stability in the Greek banking System for the sake of public interest, the Fund acts in line with the relevant commitments under the MoU of 15/03/2012 and of 19/08/2015 and in compliance with the obligations arising from the Master Financial Facility Agreement of 15/03/2012 and the Financial Facility Agreement of 19/08/2015.



## OBSERVERS

In accordance with HFSF's law the following persons have been appointed as observers and alternate observers to the Executive Board and the General Council:

- Mr. Peter Basch, European Commission's (EC's) representative and his alternate Mr. Zoltan Petrov,
- Mr. Panagiotis Strouzas, European Central Bank's (ECB's) representative and his alternate Mr. Maximilian Fandl,
- Mr. Mike Hesketh, European Stability Mechanism's (ESM's) representative and his alternate Mr. Efstathios Sofos.



# GENERAL COUNCIL

## RESPONSIBILITIES

The General Council decides on its own initiative or upon proposal of the Executive Board, on matters specified below and shall be charged with the oversight over the proper operation and fulfillment of the objective of the Fund.

In particular the General Council:

- Is informed by the Executive Board (EB) for its actions and monitors the compliance of the EB with the provisions of the present law and in particular with the principles enshrined in Article 2 of Law 3864/2010, as amended.
- Decides on the matters related to the provision of capital support, the exercise of voting rights and the disposal of the HFSF's participation.
- Approves the general policies and, the by-laws and internal rules and the organizational structure (IROS) applicable to the administration and operations of the HFSF, including the HFSF's code of conduct for its members, the conflict of interest's policy, the insider trading policy and the information barriers policy.
- Approves the appointment of the senior management of the HFSF, including Chief Financial Officer, the Chief Operations Officer, the Chief Internal Auditor, the Chief Risk Officer, the Chief Investment Officer, and the Chief Legal Counsel.
- Approves the HFSF's general terms and conditions of personnel's employment and the remuneration policy. The remuneration policy has to be competitive so as to attract and retain high-quality and expert candidates. The General Council takes into account the remuneration levels of staff of similar qualification in the Greek banking system.
- Approves the annual budget of the HFSF.
- Approves the annual report and other formal reports and the financial statements of the HFSF.
- Approves the appointment of the external auditors of the HFSF.
- Approves the establishment of one or more advisory bodies, determines their terms and conditions of appointment of their members, as well as the terms of reference of such bodies.
- Establishes one or more committees consisting of members of the General Council and/or other persons, and defines their responsibilities.
- Adopts the rules of procedure for the General Council and the HFSF's Procurement Regulation which regulates the procurement of goods and services, for any procurement falling within the values provided in article 23 par. 2 case I.a and par. 4 of Law 4281/2014, as an exception from the relevant provisions and subsequent procurement rules of the said Law.
- Takes the decisions and exercises such other powers and tasks as explicitly granted to the General Council by Law 3864/2010 or any other law.



The Chief Executive Officer (CEO) is responsible to the General Council for the execution of General Council's decisions and for control of the administration and operations of the HFSF. The CEO or in his absence the other member that replaces him, reports, as often as required to the General Council and not less than ten times each year.

## COMPOSITION OF THE GENERAL COUNCIL

As of the date of the issuance of the Fund's Annual Financial Statements, the General Council comprise of the following members:

GENERAL COUNCIL**	POSITION
Andreas Verykios	Non-Executive Chairman
Jón Sigurgeisson	Non-Executive Member
Christof Gabriel Maetze	Non-Executive Member
Radován Jelasy	Non-Executive Member
Paul Arlman	Non-Executive Member
Marica S. Ioannou-Frangakis	Non-Executive Member, Representative of the MoF
Vassilios Spiliotopoulos	Non-Executive Member, nominated by the BoG

\*\* On 22/03/2017, Mrs. Marica S. Ioannou-Frangakis was appointed by the Minister of Finance as non-executive member of the General Council, representative of Minister of Finance, replacing Mrs. Kerasina Raftopoulou who resigned on 28/02/2017.

\*\* On 26/01/2018, Mr. Paul Arlman was appointed by the Minister of Finance as non-executive member of the General Council, replacing Mrs. Dagmar Valcárcell.

\*\* On 15/06/2018, Mr. Andreas Verykios was appointed by the Minister of Finance as non-executive chairman of the General Council, replacing Mr. George Michelis.

## MEETINGS

The General Council meets, as often as the business of the HFSF may require, but not less frequently than ten times per calendar year. Meetings of the General Council are called and chaired by its Chairman. In his absence, the meetings are called by a member of the General Council, other than the representative of the Ministry of Finance and the person nominated by the Bank of Greece.

A quorum for the conduct of business at any meeting of the General Council consists of at least five (5) members of the General Council. Each member of the General Council has one vote. Save as otherwise provided in Law 3864/2010, decisions are adopted by a majority of the members present at the meeting. In the event of a tied vote, the person chairing the meeting casts a tie-breaking vote.

The General Council convened 30 times during 2017 and the participation of each member is presented in the following table:



GENERAL COUNCIL		
Total Number of Meetings during 2017		30
Member of the General Council	Role in General Council	N° of participations in the General Council Meetings
George Michelis**	Chairman	30/30
Vassilis Spiliotopoulos	Member	30/30
Christoforos Stratos**	Member (until December 15 <sup>th</sup> , 2017)	28/29
Steven Franck**	Member (until November 5 <sup>th</sup> , 2017)	27/28
Jón Sigurgeisson	Member	30/30
Christof Maetze	Member	29/30
Dagmar Valcárcel**	Member (until August 31 <sup>st</sup> , 2017)	23/23
Jelasily Radován	Member	30/30
Kerasina Raftopoulou	Member (until February 28 <sup>th</sup> , 2017)	6/6
Marica Ioannou-Frangakis	Member (since March 22 <sup>nd</sup> , 2017)	23/23

\*\* During 2017, the Chairman of the General Council was Mr. George Michelis. On 15/06/2018, Mr. Andreas Verykios was appointed by the Minister of Finance as non-executive chairman of the General Council.

\*\* On 01/09/2017 Mrs. Dagmar Valcárcel, non-executive member of the General Council, submitted her resignation.

\*\* On 05/11/2017 Mr. Steven Franck, non-executive member of the General Council, resigned from his duties.

\*\* Mr. Christoforos Stratos, non-executive member of the General Council, submitted his resignation which was effective as of 15/12/2017.

## VACANCY

Any vacancy in the General Council shall be filled within sixty (60) days, that can be extended if needed for another thirty (30) days, by the appointment of a new member, under the provisions of the aforementioned article 4A, to serve the remaining term of the departed member. With the exception of the representative of the Ministry of Finance and the nominee from the Bank of Greece in the General Council all appointments, including renewal of appointments and respective remuneration of member of the General Council, require the prior agreement of the Euro Working Group.



# AUDIT COMMITTEE

The Audit Committee operates in accordance with article 14 of Law 3864/2010 and the Fund's Internal Regulations.

**The Audit Committee assists the General Council in fulfilling its oversight responsibilities for the financial reporting process, the internal audit performance, the external auditor's appointment, remuneration and independence and the process for monitoring compliance with laws and regulations and the code of conduct.**

The audit committee consists of at least two (2) members of the General Council, one of which is the Chairman, and one external expert of recognized standing and experience in auditing.

As of the date of the issuance of the Fund's Financial Statements, the Audit Committee\* consisted of three members:

1. Mr. Christof Maetze\*, Chairman
2. Mr. Jón Sigurgeisson\*, Member
3. Mr. Marios Eleftheriadis, External Expert

\* Following the resignation of Mr. Steven Franck, former AC Chairman, on November 5<sup>th</sup>, 2017, Mr. Christof Maetze was appointed by the General Council as Chairman and Mr. Jón Sigurgeisson as member of the Audit committee on December 9<sup>th</sup>, 2017.

The main responsibilities of the Audit Committee are to:

- **Supervise** the internal audit function
- **Make recommendations** on the appointment of external auditors, the audit fee and the scope of external audits
- **Review and consider** reports from the external auditors and the auditor's management letter
- **Consult** with the external auditors on the findings of their audits
- **Review the financial statements** before submission to the General Council for approval
- **Submit reports** to the General Council and the Executive Board on a regular basis, and
- **Regulate** any issue concerning its operation





## MEETINGS

The Audit Committee meets regularly, at least four (4) times per year, and occasionally whenever necessary. Following relevant invitation, at the meetings of the Audit Committee, the Executive Board or Chief Officers of the Fund may be present. **Six (6) Audit Committee meetings were held in 2017.**

The participation of the AC members in these meetings is presented in the following table:

MEMBER OF AUDIT COMMITTEE		
Total Number of Meetings during 2017		6
Member of the Audit Committee	Role in the Audit Committee	Number of Participations in the Audit Committee
Steven Franck*	Chairman (until November 5 <sup>th</sup> , 2017)	5/5
Christof Maetze*	Chairman (since November 5 <sup>th</sup> , 2017)	1/1
Christof Maetze*	Member (until November 5 <sup>th</sup> , 2017)	5/5
Jón Sigurgeisson*	Member (since November 5 <sup>th</sup> , 2017)	1/1
Marios Eleftheriadis	Member	5/6

\* Following the resignation of Mr. Steven Franck, former AC Chairman, on November 5th, 2017, Mr. Christof Maetze was appointed by the General Council as Chairman and Mr. Jón Sigurgeisson as member of the Audit committee on December 9th, 2017.



# EXECUTIVE BOARD

## RESPONSIBILITIES

The Executive Board is charged with the preparation of the HFSF's tasks and the implementation of its decisions its competent bodies and conduct of its operations necessary for the administration and operation, as well as for the fulfilment of its objective.

The Executive Board has indicatively the following powers and tasks:

- i. Proposes to the General Council on the issues that the General Council decides according to Article 4 under the paragraph 9 of Law 3864/2010
- ii. Implements the decisions of the General Council taken either upon or without proposal from the Executive Board
- iii. Takes all actions required or deemed advisable for the administration or operations of the Fund, including the Fund's powers and responsibilities under Article 2 of Law 3864/2010, procurement of goods and services, entering into contractual commitments on behalf of the HFSF, appointing the staff and advisors of the Fund, and generally representing the HFSF
- iv. Delegates any of his powers or tasks to any of its members or to the HFSF's cadres, in accordance with the general terms and conditions adopted by the General Council and with due consideration to the avoidance of conflicts of interests, provided that the Chief Executive Officer shall primarily exercise his powers pursuant to the provisions of the HFSF Law. The Executive Board appoints a group to assist the tasks of the member of the Executive Board who has been assigned the task to enhance the role of the HFSF in facilitating the resolution of Non-Performing Loans
- v. Has such other powers and tasks as explicitly granted by Law 3864/2010 or any other law
- vi. Represents judicially and extra-judicially the HFSF and binds it towards any third party
- vii. Exercises any other power which is not expressly granted to the General Council



## COMPOSITION OF THE EXECUTIVE BOARD

As of the date of the issuance of this annual financial report, the Executive Board of the HFSF is comprised of the following members:

EXECUTIVE BOARD*	POSITION
Martin Czurda	Chief Executive Officer
Eric Tourret	Deputy Chief Executive Officer
Ilias Xirouhakis	Executive Member

- \* On 03/05/2017 Mr. Panagiotis Doumanoglou was nominated by the BoG as executive member of the Executive Board, replacing Mr. Dimitris Frangetis who submitted his resignation effective as of 24/04/2017. Mr. Panagiotis Doumanoglou submitted his resignation which was effective as of 01/10/2017.
- \* On 12/06/2017, Mr. Martin Czurda assumed his responsibilities, following his appointment as CEO by the Minister of Finance on 18/05/2017.
- \* On 09/01/2018 Mr. Ilias Xirouhakis was nominated by the BoG as executive member of the Executive Board, replacing Mr. Panagiotis Doumanoglou.

## MEETINGS

The Executive Board meets as often as the business of the HFSF may require but not less than once a week. Meetings of the Executive Board are called by the Chief Executive Officer or, in his absence, by the person replacing him, who is the other member of the Executive Board, referred to in the second subparagraph of paragraph 3 of Article 4 of Law 3864/2010, as amended.

Two members constitute a quorum for Executive Board meetings. Each member of the Executive Board has one vote. Save as otherwise provided in this Law, decisions are adopted by a majority of two (2) members present at the meeting. During 2017, the Executive Board convened forty-nine (49) times.

The participation of the EB members in these meetings is presented in the following table:

EXECUTIVE BOARD		
Total Number of Meetings during 2017		49
Member of Executive Board	Role in the Executive Board	Participations in the Executive Board Meetings
Martin Czurda	Chief Executive Officer (from May 18 <sup>th</sup> , 2017)	28/28
Eric Tourret	Deputy Chief Executive Officer	49/49
Frangetis Dimitrios	Member (until April 24 <sup>th</sup> , 2017)	12/12
Panagiotis Doumanoglou	Member (from May 3 <sup>rd</sup> 2017 until October 1 <sup>st</sup> , 2017)	28/28

## VACANCY

Any vacancy on the Executive Board shall be filled within sixty (60) days, that can be extended if needed for another thirty (30) days, by the appointment of a new member, under the provisions of article 4A, to serve the remaining term of the departed member. Appointments of member of the Executive Board including its respective remuneration require the prior agreement of the Euro Working Group.



# EXECUTIVE BOARD'S CURRICULUM VITAE

AS OF THE DAY OF PUBLICATION  
OF THE REPORT

MARTIN CZURDA  
ERIC TOURRET  
ILIAS XIROUHAKIS



# MARTIN CZURDA

## Chief Executive Officer



**Dr. Martin Czurda has vast experience in the banking sector having held senior positions in various international banking institutions.**

In particular, end 2015 till 2016, Dr. Czurda was the Chairman of the Non-Executive Board at Swiss owned Valartis Bank AG, Austria appointed by a public trustee in order to sell the majority of the banking operations and wind up the remaining parts.

From 2013 to 2015, following the privatization of Austrian Anadi Bank AG (formerly Hypo Alpe-Adria-Bank AG) he has served as the Chief Executive Officer (CEO) for the new owners from India and UK. During this time, he reorganized the bank and transformed it from a non-viable credit institution to a private profitable bank.

He has also served as restructuring Chief Risk Officer (CRO) and Chief Financial Officer (CFO) at a Slovene bank

in Vienna in 2012-2013, and from 2009 to 2012 he has been appointed CEO at a Russian/Dutch bank in Amsterdam with the mission to change the previous business model into a trade and

commodity finance bank profiting from the trade flows between Russia/CIS and Europe.

In the past he has acted as Non-Executive member in many organizations on the Board of Directors such as Austrian Hypo (Mortgage) Association, SREI Infrastructure Ltd and Amsterdam Trade Bank.

He has also served as Managing Director (MD), Division Head of Global Markets and Division Head of Financial Institutions at Raiffeisen Zentralbank, Vienna and started his commercial banking career with Bank Austria, Vienna.

Dr. Czurda holds a Doctorate Degree (Dr.) in Economics and a Master's Degree (M.A.) in Business Administrations from the University of Economics, Vienna, Austria.



# ERIC TOURRET

## Deputy Chief Executive Officer



Mr. Eric Tourret has over 20 years of experience in the banking sector across Europe having held executive positions with consulting firms and financial institutions in Paris, London and Athens.

Prior to joining the HFSF, Mr. Tourret was a partner at Ernst & Young in Greece dedicated to the Financial Services Sector in charge of Transaction Advisory Services for the Central and Southeast Europe region. He has a wide experience in advising financial institutions on cross border transactions including acquisitions, mergers, restructuring, disposal of non core assets, resolution of non performing loans and post-merger integration.

Prior to his relocation in Greece in 2007, Mr. Tourret held the position of Director in Transaction Advisory Services at Ernst & Young in the UK advising financial institutions across Europe on mergers and acquisitions.

He also served as Vice President at JP Morgan in London and previously as Director in the financial services sector at Arthur Andersen in France and in the UK.

He started his career with the General Inspection of the National Confederation of Credit Mutuel in France.

Mr Tourret holds a Master of Science (M.Sc) in Audit and Finance from Lille Business School and a Master of Arts (M.A) in Business Management from Lille University (France).



# ILIAS XIROUHAKIS

## Member



Mr. Ilias Xirouhakis has 25 years of experience in senior management positions of financial companies in Greece and abroad. Several of the companies he has worked are Global Leaders in their areas of activity.

He is a graduate of the London Metropolitan University, with a Bachelor of Arts (Honors) degree in economics and business. He holds a Masters degree in Economics from the Exeter University of the United Kingdom, specializing in the Union's monetary policy and the common currency.

He has also a Master of Business Administration (MBA) in Banking Management specializing in Risk Management (Credit & Operations) and Electronic Payment Systems from the same University.



# EXECUTIVE BOARD'S & GENERAL COUNCIL'S REMUNERATION

According to the Fund's Law as amended by Laws 4340/2015 and 4346/2015, the remuneration and compensation of the members of the General Council and the Executive Board:

1. Is determined by a Selection Panel decision, is stated in the decision relating to their appointment and is disclosed in the Fund's annual report,
2. Is such that qualified and expert persons can be recruited and retained by the Fund and
3. Is not determined based on the Fund's profits or revenues.

The members of the General Council and the Executive Board due to their relationship with the Fund, received remuneration for the year ended 31/12/2017, as listed in the table below.

GENERAL COUNCIL			
NAME	POSITION DURING 2017	PERIOD IN THE POSITION	REMUNERATION* 01/01 - 31/12/2017 (€)
George Michelis	Chairman	01/01/2017 - 31/12/2017	120,000
Steven Franck	Member	01/01/2017 - 05/11/2017	46,944
Christoforos Stratos	Member	01/01/2017 - 15/12/2017	46,140
Jón Sigurgeisson	Member	01/01/2017 - 31/12/2017	47,000
Christof Gabriel Maetze	Member	01/01/2017 - 31/12/2017	53,000
Kerasina Raftopoulou	Member Representative of the MoF	01/01/2017 - 28/02/2017	7,333
Vassilios Spiliotopoulos	Member Appointed by the BoG	01/01/2017 - 31/12/2017	46,000
Dagmar Valcárcel	Member	01/01/2017- 31/08/2017	32,333
Marica S. Ioannou-Frangakis	Member Representative of the MoF	20/03/2017 - 31/12/2017	36,538
EXECUTIVE BOARD			
NAME	POSITION DURING 2017	PERIOD IN THE POSITION	REMUNERATION** 01/01 - 31/12/2017 (€)
Martin Czurda	Chief Executive Officer	12/06/2017- 31/12/2017	155,642
Eric Tourret	Deputy Chief Executive	01/01/2017- 31/12/2017	185,826
Panagiotis Doumanoglou	Member	03/05/2017 - 01/10/2017	64,000
Dimitris Fraggetis	Member	01/01/2017 - 24/04/2017	49,006

\* As far as General Council members are concerned, the amount of € 53,249 has been paid by the Fund as social security contribution (not included in the above table).

\*\* As far as Executive Board members are concerned, the amount of € 53,567 has been paid by the Fund as social security contribution (not included in the above table).





# FUND'S PERSONNEL

HFSF is following Law 3864/2010 and its amendments when proceed in employing, on the basis of merit, talented individuals who possess relevant skills, experiences and attitudes, as per Fund Law. The majority of the Fund's personnel have a private law employment fixed term contract which coincides with the term of the Fund at the time of the signing of these contracts. In accordance with article 5 of Law 3864/2010, Fund's personnel is working under three types of employment arrangements: Definitive term private law employment contracts, paid assignment contracts for lawyers and secondment agreements, which are possible for employees from the Public Sector, Public Legal Entities, Private Legal Entities of the public sector, as well as employees from the BoG.

**As of 01/02/2013, according to Law 3864/2010 as amended, the General Council approved the appointment of the Fund's senior management and the Fund's general terms and conditions of employment, including the remuneration policy. The staff of the Fund is hired by decision of the Executive Board following an invitation to express interest and an assessment of candidates' qualifications.**

HFSF considers its employees as the major asset and actions and efforts are undertaken to create a good working environment based on the Fund's Values that are the underlying factors that guide decisions and actions. Overall HFSF is an experts Hub and all hiring meet the following minimum requirements of core skills and competences.



## CORE SKILLS MEET:

### 1. the values of HFSF:

- **Professional Excellence**  
Strong technical skills and competencies
- **Independence**  
Objectivity and freedom from external influences in decision making
- **Integrity**  
Consistent, reliable and transparent behaviour and decision making

### 2. minimum education

- bachelor level
- excellent use of MS office and
- fulfilled military services when applicable

## CORE COMPETENCES:

- **Communication**
- **Working with people**
- **Drive for adapting and responding to change**

The remuneration of the staff is determined by a decision of the Executive Board in accordance with the approved remuneration policy of the HFSF. The policy is aligned with HFSF strategy and long-term interests as shareholder of Greek systemic banks with a specific mission to contribute to the improvement and sustainability of stability in the Greek banking sector for the sake of public interest and be consistent with our core values (banking expertise, integrity and independence).

THE FUND'S HEADCOUNT TOTALED

# 28 EMPLOYEES

(not including 3 Executive Board Member)

# 13 FEMALE | 18 MALE

(with the average age of 40 years old)

# 85% HFSF PERSONNEL HOLD A POST GRADUATE DEGREE



# HFSF'S RISK MANAGEMENT

The HFSF acknowledges its exposure to risk as a result of its participation in the credit institutions which received capital support (Supported Credit Institutions, “SCIs”) and as a result of its internal operations, and the need for the effective management of these risks. Risk management and control are an integral part of the Fund’s commitment to achieve its objectives.

The Risk Management Policy is approved by the HFSF’s Executive Board (EB) and the General Council (GC). It is endorsed and maintained by the HFSF’s Chief Risk Officer (“CRO”) and is reviewed regularly. This Risk Policy is in accordance with all amendments following the HFSF’s foundation Law and as currently in effect.

## **RISK MANAGEMENT PRINCIPLES**

The HFSF actively manages the risks that it faces, internally as an organisation and has put in place business and operational risk management arrangements so that the HFSF’s stakeholders can be reassured that the HFSF is operating within a risk-controlled framework.

The HFSF’s organizational structure aims at adopting best practices in terms of ensuring existence of clear lines of responsibilities, efficient segregation of duties and prevention of conflict of interests at all levels, including the General Council and the Executive Board, as well as among Divisions, at an operational, tactical and strategic level.

## **RISK GOVERNANCE FRAMEWORK**

At the top of the pyramid, is the General Council which is charged with the ultimate responsibility and has the oversight for the proper operation and fulfilment of the objective of the Fund. The HFSF’s General Council has the responsibility of maintaining a sound system of governance and internal controls that supports the achievement of the HFSF’s objectives. The Executive Board is charged with the implementation of the Fund’s tasks and the conduct of its operations.

The HFSF’s senior management is responsible for developing and maintaining processes, methodologies and systems to ensure effective and efficient operations, prompt identification and adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The HFSF develops appropriate “Relationship Framework Agreements” (RFAs) that officially govern the Fund’s relationship and interaction with each particular SCI. These RFAs establish clear guidelines on when and how HFSF will proceed to agreed actions as a method of protecting its investment and fulfil its objectives.

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<sup>10</sup> Risk management comprises of the set of strategies, policies, processes, organizational structures & technological infrastructures that an institution shall develop in order to identify, estimate, monitor and control on an on-going basis its exposures to risks that arise from its activities.



The HFSF designs and implements an appropriate framework for the regular monitoring and assessment of the SCIs during the Stewardship phase of its involvement. During the Stewardship phase, the HFSF monitors and assesses:

- a. The orderly implementation of the agreed restructuring plan that the SCI submitted to HFSF as part of its application to HFSF for the provision of capital support.
- b. The SC'Is risk & capital strategy implementation.
- c. The actions undertaken by the SCI in order to comply with the targets, limits and guidelines set by the HFSF.
- d. The system of corporate governance and the organisation structure of the SCI.
- e. The establishment by the SCI of a robust risk & capital management framework according to best banking practices, with special focus on risk governance, capital adequacy and liquidity management.
- f. The enhancement of the SCI's internal control framework in line with best banking practices.
- g. The SCI's Troubled Assets' Management framework. More specifically, the HFSF:
  - Approves the Banks' Group Strategy, Policy and Governance for NPL management.
  - Monitors the Banks' performance against targets set for NPL resolution (e.g. by the BoG/SSM), as well as progress on key initiatives undertaken by them.
  - Holds regular (monthly and/or quarterly) meetings between the Banks' management and the HFSF in order to review the Banks' NPL strategy and objectives, as well as operational targets set by the supervisory authorities.
  - Monitors KPIs introduced in the RFAs, in order to oversee effectiveness and efficiency of the Bank's NPL management framework and NPL resolution.



# INTERNAL CONTROL ENVIRONMENT

## FRAMEWORK

The General Council and Executive Board are responsible for the development of an efficient and effective System of Internal Controls (SICs) in order to ensure the achievement of the Fund's objectives. The SIC constitutes the totality of detailed key controls and processes which track continuously every activity, contributing to the effective operation of the Fund.

**The General Council**, with the support of the Audit Committee, has the ultimate responsibility for adoption of appropriate principles and policies to ensure the effective and consistent application of the SICs.

**The Executive Board** is responsible for the development and implementation of appropriate control mechanisms and procedures depending on the scope, the risks and the nature of work of the Fund's departments as well as the evaluation of weaknesses arising and the necessary remedial actions.

**The SIC**, the design of which is in a continuous development, aims at addressing risks to a reasonable level and not necessarily eliminating them.

## AUDIT COMMITTEE - INTERNAL AUDIT

The Fund's Audit Committee is responsible for monitoring the adequacy and effectiveness of the SICs of the Fund, based on the reports received from the Internal Audit Department and the external auditors.

By decision of the General Council a person with specific competences and auditing experience is appointed as Chief Internal Auditor of the Internal Audit Department of the Fund, with a fixed term contract, extending until the Fund's termination date. **The Internal Auditor does not form part of the official hierarchy, enjoys full independence in the accomplishment of his/her duties and the internal audit plan and time budget is approved by the Audit Committee. The Internal Auditor reports, through the Audit Committee, to the HFSF's General Council and directly to the Executive Board for administrative matters.**

The Internal Audit (IA) Function of the HFSF is an independent and objective, assurance and consulting activity designed to ensure compliance with the policies and procedures so as to add value and improve the organization's operational effectiveness. It helps the organization accomplish its objectives by:

- a. bringing a systematic, disciplined approach in evaluating the effectiveness of risk management, control and governance processes
- b. recommending appropriate measures to improve their efficiency and effectiveness
- c. monitoring the implementation of corrective actions.



## FINANCIAL REPORTING

The Audit Committee has the oversight of Internal Controls over Financial Reporting (ICFR) and monitors the adequacy and effectiveness of the ICFR based on the reports received from the internal audit department and the external auditors. The Audit Committee supervises the preparation of annual financial statements of the Fund in accordance with the International Financial Reporting Standards and advises the Fund's General Council accordingly.

The system of ICFR consists of all the accounting policies and procedures designed to prevent mis-statements and safeguard the integrity of the input data, the accuracy and validity of the report output.

### The ICFR include, inter alia, the following controls:

- Adequate segregation of duties
- Performance of appropriate reconciliations of systems, reports and accounts
- Review of the recorded transactions and the prepared financial reports for accuracy and completeness in compliance with the four eyes principle
- End of month processes and review of relative accounting entries
- Review of valuation of assets and liabilities
- Review of completeness and accuracy of disclosures and Preparation of IFRS checklists
- Procedures to identify related parties

Finance Division is responsible for the preparation of the financial statements in compliance with IFRS, regulatory and other ad hoc financial reporting requirements. The IFRS financial statements are approved by the Executive Board, and the General Council, following the preapproval of the Audit Committee. Annual IFRS financial statements are audited and semi-annual IFRS financial statements are reviewed by the statutory Auditor.

The Internal Audit Department evaluates the design and operating effectiveness of ICFR by performing periodic and ad hoc risk-based audits.

## ETHICAL STANDARDS

The importance of HFSF's mandate and its role in the banking system, requires for strict loyalty and confidentiality standards as well as adequate safeguards of independence standards for HFSF personnel. The HFSF has designed a system of **Internal Control over Ethical Standards** (hereinafter "ICES"), which include relevant policies, manuals and procedures.

These systems of Internal Controls enable the Fund to carry on its activities based on high ethical standards, and the Fund's current legislation.

HFSF taking into account the provisions of the establishing Law 3864/2010 has also adopted a strict **Code of Conduct**, which provides guidance and sets ethical conventions, standards and benchmarks. The Code of Conduct is applicable to all HFSF's personnel, which have the responsibility to contribute to the good governance of the Fund and to help maintain its reputation.

Based on the Code of Conduct **the HFSF personnel**, acts honestly, with integrity, independently, impartially, with discretion and without regard to self-interest, avoiding any situation liable to give rise to a personal conflict of interests.



# STATEMENT OF THE GENERAL COUNCIL & THE EXECUTIVE BOARD

## **Declarations of the Members of the General Council and the Executive Board.**

We, in our capacity as Members of the General Council and the Executive Board of the Hellenic Financial Stability Fund, as far as we know, declare that:

1. The Financial Statements of the Hellenic Financial Stability Fund for the financial year ended 31/12/2017, which have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU, present a true and fair view in the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Equity and Cash Flow Statement of the Fund.
2. The General Council's and Executive Board's report presents in a true manner the evolution, the performance, the position of the Fund and the significant events that took place in the 12 month period ended 31/12/2017 that affected the Fund's annual financial statements for the year ended 31/12/2017.

**Athens, 17 July 2018**

The Chief  
Executive Officer

The Deputy Chief  
Executive Officer

The Member  
of the Executive Board

Martin Czurda

Eric Tourret

Ilias Xirouhakis

The Chairman of  
the General Council

The Member of  
the General Council

Andreas Verykios

Christof Gabriel Maetze

The Member of  
the General Council

The Member of  
the General Council

The Member of  
the General Council

Jón Sigurgeisson

Radován Jelasity

Paul Arlman

The Member of  
the General Council,  
Representative of the MoF

The Member of  
the General Council,  
appointed by the BoG

Marica S. Ioannou - Frangakis

Vassilios Spiliotopoulos





KPMG Certified Auditors AE  
3 Stratigou Tombra Street  
Aghia Paraskevi  
153 42 Athens, Greece  
Telephone: +30 210 6062100  
Fax: +30 210 6062111

## **Independent Auditors' Report (Translated from the original in Greek)**

To the General Council of the Hellenic Financial Stability Fund,  
Private Legal Entity

### **Report on the Audit of the Financial Statements**

#### **Opinion**

We have audited the Financial Statements of Hellenic Financial Stability Fund, Private Legal Entity (the "Fund") which comprise the Statement of Financial Position as at 31 December 2017, the Statements of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of the Hellenic Financial Stability Fund, Private Legal Entity as at 31 December 2017 and 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 comply with the regulatory requirements of C.L. 2190/1920 and L. 3864/2010 (as applicable).

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA), which have been incorporated in Greek legislation. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and the ethical requirements that are relevant to our audit of the financial statements in Greece and we have fulfilled our other ethical responsibilities in accordance with the requirements of the applicable legislation and the aforementioned Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management 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 the relative regulatory requirements of C.L. 2190/1920 and L. 3864/2010 (as applicable) 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.

In preparing the Financial Statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.





## Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, which have been incorporated in Greek legislation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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



## **Report on Other Legal and Regulatory Requirements**

### **1. General Council and Executive Board Report**

We verified that the contents of the General Council's and Executive Board's Report are consistent and correspond with the Financial Statements with applicable laws and regulations.

Based on the knowledge acquired during our audit, relating to the Fund and its environment, we have not identified any material misstatements in the General Council and Executive Board's Report.

### **2. Net Assets and Relevant Requirements of C.L. 2190/1920**

Total Equity of the Fund as of 31 December 2017 is less than the half (1/2) of the share capital however due to the Fund's special nature and purpose as described in its founding Law 3864/2010 (as in force), the requirements of article 47 of C.L. 2190/1920 are not applicable.

Athens, 17 July 2018

KPMG Certified Auditors AE  
AM SOEL 114

Nikolaos Vouniseas, Certified Auditor Accountant  
AM SOEL 18701

# STATEMENT OF FINANCIAL POSITION

## STATEMENT OF FINANCIAL POSITION

Amounts in €	Note	31/12/2017	31/12/2016
<b>ASSETS</b>			
Cash and balances with Banks	5	1,036,067,798	2,737,181,817
Financial assets at fair value through profit or loss	6	3,812,667,727	3,767,338,955
Property and equipment	7	111,214	69,127
Intangible assets	8	25,150	34,555
Accrued income receivable		14,402,243	9,676,335
Receivables from banks under liquidation	9	1,650,954,992	1,862,011,241
Other assets		324,442	280,931
<b>Total Assets</b>		<b>6,514,553,566</b>	<b>8,376,592,961</b>
<b>LIABILITIES</b>			
Derivative financial liabilities	10	843,637	4,847,325
Other liabilities	11	1,083,452	1,029,707
<b>Total Liabilities</b>		<b>1,927,089</b>	<b>5,877,032</b>
<b>EQUITY</b>			
Capital	12	42,163,557,748	44,192,757,748
Accumulated losses		(35,650,931,271)	(35,822,041,819)
<b>Total Equity</b>		<b>6,512,626,477</b>	<b>8,370,715,929</b>
<b>Total Liabilities &amp; Equity</b>		<b>6,514,553,566</b>	<b>8,376,592,961</b>

The Notes from pages 55 to 90 form an integral part of these annual financial statements

Athens, 17 July 2018

The Chairman of the General Council

Andreas Verykios

The Chief Executive  
Officer

Martin Czurda

The Deputy  
Chief Executive Officer

Eric Turret

The Chief Financial  
Officer

Evangelia D. Chatzitsakou

# STATEMENT OF COMPREHENSIVE INCOME

## STATEMENT OF COMPREHENSIVE INCOME

Amounts in €	Note	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
Interest income	13	35,218,317	16,151,469
Income from CoCos	14	165,466,644	333,666,997
Personnel expenses	15	(2,909,872)	(2,678,537)
General administrative & other operating expenses	16	(4,828,332)	(5,881,598)
Impairment (charges)/reversals of receivables from banks under liquidation	9	(71,242,999)	(160,312,857)
Gain/(loss) from financial instruments at fair value through profit or loss	17	49,472,406	(649,609,576)
Depreciation and amortization of property, equipment and intangible assets		(71,222)	(75,961)
Other income/(expenses)		5,605	10,780
<b>Profit/(Loss) for the year</b>		<b>171,110,548</b>	<b>(468,729,283)</b>
<b>Total comprehensive income/(expenses) for the year</b>		<b>171,110,548</b>	<b>(468,729,283)</b>

The Notes from pages 55 to 90 form an integral part of these annual financial statements.

Athens, 17 July 2018

The Chairman of the General Council

Andreas Verykios

The Chief Executive  
Officer

Martin Czurda

The Deputy  
Chief Executive Officer

Eric Turret

The Chief Financial  
Officer

Evangelia D. Chatzitsakou



# STATEMENT OF CHANGES IN EQUITY

## STATEMENT OF CHANGES IN EQUITY

Amounts in €	Capital	Accumulated losses	Total
<b>Balance as of 01/01/2016</b>	<b>44,192,757,748</b>	<b>(35,353,312,536)</b>	<b>8,839,445,212</b>
Loss for the year from 01/01/2016 to 31/12/2016	-	(468,729,283)	(468,729,283)
<b>Balance as of 01/01/2017</b>	<b>44,192,757,748</b>	<b>(35,822,041,819)</b>	<b>8,370,715,929</b>
Capital Decrease	(2,029,200,000)	-	(2,029,200,000)
Gain for the year from 01/01/2017 to 31/12/2017	-	171,110,548	171,110,548
<b>Balance as of 31/12/2017</b>	<b>42,163,557,748</b>	<b>(35,650,931,271)</b>	<b>6,512,626,477</b>

The Notes from pages 55 to 90 form an integral part of these annual financial statements



# STATEMENT OF CASH FLOWS

## STATEMENT OF CASH FLOWS

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
<b>Cash flows from operating activities</b>		
<b>Profit/(loss) for the year</b>	<b>171,110,548</b>	<b>(468,729,283)</b>
<b>Adjustments for non-cash items included in statement of comprehensive income and other adjustments:</b>	<b>(178,320,734)</b>	<b>460,261,241</b>
Income from CoCos	(165,466,644)	(333,666,997)
Interest Income	(35,218,317)	(16,151,469)
Impairment charges/(reversals) of receivables from banks under liquidation	71,242,999	160,312,857
(Gain)/loss from financial instruments at fair value through profit or loss	(49,472,406)	649,609,576
Accrued expenses	522,412	81,313
Depreciation and amortization of property, equipment and intangible assets	71,222	75,961
<b>Net (increase)/decrease in operating assets:</b>	<b>139,769,740</b>	<b>30,015,132</b>
Change in receivables from banks under liquidation	139,813,251	30,000,000
Change in other assets	(43,511)	15,132
<b>Net increase/(decrease) in operating liabilities:</b>	<b>(468,667)</b>	<b>(885,242)</b>
Change in other liabilities	(468,667)	(885,242)
Interest received	30,492,409	6,475,134
<b>Net cash from operating activities</b>	<b>162,583,296</b>	<b>27,136,982</b>
<b>Cash flows from investing activities</b>		
Redemption of CoCos	-	2,029,200,000
Income from CoCos	165,466,644	333,666,997
Proceeds received from warrants exercised	139,946	2,669
Proceeds/(payments) from disposal of investments	-	(1,990,770)
Purchase of property, equipment and intangibles assets	(103,905)	(76,553)
<b>Net cash from investing activities</b>	<b>165,502,685</b>	<b>(2,360,802,343)</b>
<b>Cash flows from financing activities</b>		
Capital decrease	(2,029,200,000)	-
Capital increase costs	-	(61,500)
<b>Net cash from financing activities</b>	<b>(2,029,200,000)</b>	<b>(61,500)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(1,701,114,019)</b>	<b>2,387,877,825</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>2,737,181,817</b>	<b>349,303,992</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>1,036,067,798</b>	<b>2,737,181,817</b>

The Notes from pages 55 to 90 form an integral part of these annual financial statements

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS



## Note 1 | General Information

The Hellenic Financial Stability Fund (hereinafter the Fund or HFSF) was founded on 21/07/2010 under Law 3864/2010 as a private legal entity and does not belong to the public sector, neither to the broader public sector. It has administrative and financial autonomy, operates exclusively under the rules of the private economy and is governed by the provisions of the founding law as in force. On a supplementary basis, the provisions of company codified Law 2190/1920 are applied as in force, provided they are not contrary to the provisions and the objectives of the founding law of the Fund. The purely private nature of the Fund is neither affected by the fact that its entire capital is subscribed solely by the Greek State, nor by the issuance of the required decisions by the Minister of Finance (hereinafter MoF). According to Law 4389/2016, HFSF is a direct subsidiary of the Hellenic Company of Assets and Participations, however the administrative autonomy and independence of the HFSF is not affected according to the provisions of the Law 4389/2016. The Fund shall comply with the obligations arising from the Master Financial Facility Agreement (hereinafter MFAFA) signed on 15/03/2012 and the new FAFA signed on 19/08/2015. According to Law 4549/2018, the Fund's tenure has been extended up to 31/12/2022. By decisions of the Minister of Finance, the duration of the Fund may be extended further, if deemed necessary for the fulfilment of its scope.

The Fund began its operations on 30/09/2010 with the appointment of the members of the Board of Directors (hereinafter BoD) according to the decision 44560/B. 2018 on 30/09/2010 of the Ministry of Finance. On 30/01/2013, the BoD was substituted by the Executive Board and the General Council. The purpose of the Fund is to contribute to the maintenance of the stability of the Greek banking system, through the strengthening of the capital adequacy of credit institutions, including subsidiaries of foreign credit institutions, provided they legally operate in Greece under the authorization of the Bank of Greece (hereinafter BoG). HFSF exercises its shareholding rights deriving from its participation in the credit institutions to which capital support is provided by the Fund, in compliance with the rules of prudent management of the assets of the Fund and in line with the rules of the European Union (hereinafter "EU") with respect to State aid and competition.

The Fund according to Law 4051/2012, as amended by Law 4224/2013, was liable to pay until 31/12/2014 the amount that the Hellenic Deposits and Investments Guarantee Fund (hereinafter HDIGF) would have paid for the process of the resolution of the credit institutions in accordance to Law 4261/2014, acquiring the right and the privilege of the HDIGF in accordance to paragraph 4 of Article 13A of the Law 3746/2009. According to Law 4340/2015 and Law 4346/2015, the Fund may grant a resolution loan as defined in the new FAFA of 19/08/2015 to the HDIGF for the purposes of funding bank resolution costs, subject to the provisions of the aforementioned facility agreement and in line with the European Union's State aid rules.





As of the date of the issuance of the Fund's annual financial statements, the Executive Board and General Council comprised of the following:

<b>Executive Board*</b>	<b>Position</b>
<b>Martin Czurda</b>	<b>Chief Executive Officer</b>
<b>Eric Turret</b>	<b>Deputy Chief Executive Officer</b>
<b>Ilias Xirouhakis</b>	<b>Executive Member</b>
<b>General Council**</b>	<b>Position</b>
<b>Andreas Verykios</b>	<b>Chairman</b>
<b>Paul Arlman</b>	<b>Member</b>
<b>Jón Sigurgeisson</b>	<b>Member</b>
<b>Christof Gabriel Maetze</b>	<b>Member</b>
<b>Radován Jelasyt</b>	<b>Member</b>
<b>Marica S. Ioannou - Frangakis</b>	<b>Member, Representative of the MoF</b>
<b>Vassilios Spiliotopoulos</b>	<b>Member, appointed by the BoG</b>

\* On 09/01/2018 Mr. Ilias Xirouhakis was nominated by the BoG as executive member of the Executive Board, replacing Mr. Panagiotis Doumanoglou.

\* On 03/05/2017 Mr. Panagiotis Doumanoglou was nominated by the BoG as executive member of the Executive Board, replacing Mr. Dimitris Frangetis who submitted his resignation effective as of 24/04/2017. Mr. Panagiotis Doumanoglou submitted his resignation which was effective as of 01/10/2017.

\* On 12/06/2017, Mr. Martin Czurda assumed his responsibilities, following his appointment as CEO by the Minister of Finance on 18/05/2017.

\*\* On 22/03/2017, Mrs. Marica S. Ioannou-Frangakis was appointed by the Minister of Finance as non-executive member of the General Council, representative of Minister of Finance, replacing Mrs. Kerasina Raftopoulou who resigned on 28/02/2017.

\*\* On 01/09/2017 Mrs. Dagmar Valcárcel, non-executive member of the General Council, submitted her resignation.

\*\* On 05/11/2017 Mr. Steven Franck, non-executive member of the General Council, resigned from his duties.

\*\* Mr. Christoforos Stratos, non-executive member of the General Council, submitted his resignation which was effective as of 15/12/2017.

\*\* On 26/01/2018, Mr. Paul Arlman was appointed by the Minister of Finance as non-executive member of the General Council, replacing Mrs. Dagmar Valcárcel.

\*\* On 15/06/2018, Mr. Andreas Verykios was appointed by the Minister of Finance as non-executive chairman of the General Council, replacing Mr. George Michelis.

The statutory auditor of the financial statements is Mr. Nikolaos Vouniseas, RN SOEL 18701.

The annual financial statements were approved by the Fund's General Council on 17 July 2018.



## Note 2 | Summary of Significant Accounting Policies

### 2.1 Basis of preparation

The Fund's financial statements for the year ended 31/12/2017 (the "financial statements") have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("E.U."). The amounts are presented in Euro rounded to the first decimal, unless otherwise stated. Where necessary, the comparative figures have been adjusted to conform to changes in presentation in the current period.

The financial statements have been prepared under the historical cost convention, except for financial assets held at fair value through profit or loss and derivative liabilities (warrants) which have been measured at fair value. The preparation of financial statements in conformity with the IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The use of available information and the application of judgment and assumptions are inherent in the formation of estimates in the following areas: impairment of investment securities, assessment of the recoverability of receivables from entities under liquidation, valuation of financial instruments not quoted in active markets and contingencies. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The Financial Statements cover the financial year from 01/01/2017 up to 31/12/2017. The Fund's Management has reviewed the accounting policies and believes that the accounting policies adopted are the most appropriate for the circumstances of the Fund.

The Fund does not prepare consolidated financial statements as these do not represent the substance of the investments of the Fund, which according to the law aim to contribute to the maintenance of the stability of the Greek banking system, for the sake of public interest and do not meet the needs of their users.

Following the participation of HFSF in the recapitalizations of the four systemic banks that took place in 2013 and 2015, the Fund obtained common shares in Alpha Bank S.A. (hereinafter "Alpha Bank"), Eurobank Ergasias S.A.'s (hereinafter "Eurobank") National Bank of Greece S.A. (hereinafter "NBG") and Piraeus Bank S.A. (hereinafter "Piraeus Bank").

More specifically, under the recapitalization of 2013, the Fund obtained the majority of the common shares with restricted voting rights in Alpha Bank, NBG and Piraeus Bank, given that the private sector participation was above the minimum requirement as provided by the Law. Following that, private shareholders retained their right to appoint the management of the bank, which in turn has the power to manage the financial and operating policies of the bank. The Fund could exercise its voting rights in specific decisions under the legislation in force and had the rights provided in the Relationship Framework Agreements, as were in force. In contrast, the Eurobank's share capital increase was subscribed solely by the Fund as the Bank was not able to attract private sector participation and the Fund was able to fully exercise its voting rights. However, Eurobank's management preserved its independence to determine its commercial and day-to-day decisions as provided in the Relationship Framework Agreement, as was in force. In line with the aforementioned, Eurobank was re-privatized in May 2014 with the Fund retaining only restricted voting rights thereafter.

Under the recapitalization of 2015, the Fund, participated in the share capital increase of NBG and Piraeus Bank covering the additional share capital that was not covered by private investors, whereas Eurobank and Alpha Bank covered their capital needs solely from private investors. Consequently, the Fund became the major shareholder with full voting rights in NBG and Piraeus Bank and HFSF's participation in Alpha Bank and Eurobank decreased further.



Nevertheless, HFSF exercises its rights as a shareholder in the four systemic banks under the terms of Relationship Framework Agreements, as amended, in November and December of 2015. HFSF acts in line with the obligations assumed according to the MFAFA signed between the European Stability Mechanism, the Hellenic Republic, the BoG and HFSF. In pursuing its objective, HFSF among others, (i) monitors and assess how the credit institutions, to which capital support is provided by the HFSF, comply with their restructuring plans, (ii) exercises its shareholding rights in compliance with the rules of prudent management of its assets and in compliance with State aid and Competition rules of the European Union, (iii) ensures that the Bank operates on market terms, and (iv) that in due time the Bank returns to private ownership in an open and transparent manner.

HFSF retains temporary control, aiming to stabilize the Greek Banking Sector. In this context, the Fund is exempted from the financial consolidation of NBG and Piraeus Bank financial statements and instead the Fund measures its investments at fair value through profit or loss.

## **2.2 Financial assets at fair value through profit or loss**

This category includes the banks' shares and the contingent convertible bonds (CoCos) issued by the Banks obtained as a result of the recapitalization process which the Fund has designated at initial recognition as financial assets at fair value through profit or loss.

The shares are recognized in FVTPL to eliminate or significantly reduce a measurement or recognition inconsistency (sometimes referred to as "an accounting mismatch") that would otherwise arise since the related derivatives (i.e. warrants) issued by the Fund are designated as fair value through profit or loss. The fair value designation, once made, is irrevocable.

CoCos received under the recapitalization of NBG and Piraeus Bank are hybrid securities which combine a host contract with an embedded derivative not closely related, causing the cash flows of the instrument to be modified according to a variable. The host contract behaves more like equity rather than debt, as there is no predetermined maturity and its economic characteristics and risks are those of an equity instrument. The embedded derivative is the issuer's option to redeem the instrument in cash, at any time, at 100% of the notional amount and is not clearly and closely related to the host contract's economic characteristics and risks. HFSF designates the entire contract at FVTPL at initial recognition and not bifurcate the host contract.

Financial assets at fair value through profit or loss are initially recognised at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in "Gains/(losses) from financial instruments at FVTPL".

## **2.3 Derivative financial liabilities**

Derivative financial liabilities include the warrants issued by the Fund in the context of the systemic bank's recapitalization, which were given to private investors participating in the capital increase of the systemic Bank according to provisions of Law 3864/2010 and Cabinet Act 38/2012. The Fund designates at initial recognition respective derivative financial liabilities as at fair value through profit or loss and subsequently are re-measured at their fair value with gains/(losses) recognised in the Statement of Comprehensive Income.

Each warrant incorporates the right of its holder to purchase from HFSF shares, acquired by HFSF due to its participation in the aforementioned capital increase of the systemic bank. The warrants do not provide voting rights to holders or owners thereof.

The warrants may be exercised by the holders every six months, with the first exercise date being six months following their issuance and the last exercise date being fifty-four (54) months following their issuance.

Gains and losses realised on exercise or redemption and unrealised gains and losses from changes in the fair value are included in the financial line of "Gains/(losses) from financial instruments at FVTPL" in the statement of comprehensive income.



## 2.4 Investment Securities

Investment securities are initially recognised at fair value (including transaction costs) and are classified as available-for-sale or loans-and-receivables based on the securities' characteristics and management intention on purchase date. Investment securities are recognized on the trade date, which corresponds to the date during which the Fund commits to buy or sell the asset.

**Available for sale** investment securities are measured subsequently to initial recognition at fair value. In the case that the fair value of equity instruments cannot be reliably and subjectively measured, then these securities are recognized at cost. Unrealized gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income (OCI), until such investment is sold, collected or otherwise disposed of in any other way, or until such investment is determined to be impaired.

When an available for sale investment security is disposed or impaired, the accumulated unrealized gain or loss included in other comprehensive income is transferred from equity to the income statement for the period and reported as "gains/(losses) from investment securities". Gains and losses on disposal are determined using the moving weighted average cost method.

AFS equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment at the end of the reporting period.

**Loans and receivables investment securities** consist of non-derivative investment securities with fixed or determinable payments that are not quoted in an active market.

Loan and receivable investment securities are carried at amortised cost using the effective interest rate method, less any provision for impairment. Amortised cost is calculated by taking into account any fees, points paid or received, transaction costs and any discount or premium on acquisition.

**Impairment:** The Fund assesses at each reporting date whether there is objective evidence that an investment security or a group of such securities are 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 Fund about the loss events.

**Impairment of Available-for-sale financial 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 recognized in the Income statement) is removed from equity and recognized in the Statement of Comprehensive Income. Once an impairment loss has been recognized on an equity instrument, a reversal of that impairment is not permitted. For financial assets measured at amortized cost, 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 recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The cumulative loss (measured as the difference between the amortized cost and the recoverable amount, less any impairment loss on that receivable) is removed from other comprehensive income and recognized in the Income statement.

**Impairment of loans and receivables investment securities** is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. In circumstances in which there is a range of possible amounts, a loss equal to the best estimate within that range is recognized. If, in a subsequent period, the fair value of a loan or receivable increases and the increase can be objectively related to an event occurring



after the impairment loss was recognized in the income statement, the impairment loss is reversed through the statement of comprehensive income. Interest earned while holding investment securities is reported as “interest income”.

## 2.5 Fair value of Financial Instruments

The Fund measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

**Level 1:** Unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include financial securities and derivative contracts that are traded in an active exchange market. An active market, is a market in which transactions for assets or liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis and are characterized with low bid/ask spreads.

**Level 2:** Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include financial instruments with quoted prices that are traded less frequently than exchange-traded instruments, as well as financial instruments without quoted prices and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

**Level 3:** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flows, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety, is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

## 2.6 Receivables from Banks under liquidation

According to par. 15 of article 9 of Law 4051/2012 (A' 40) as amended by Law 4224/2013, the Fund was obliged to contribute up to 31/12/2014 the amount that the HDIGF would have covered, in the context of the resolution of the financial institutions, as foreseen by par. 13 of art. 141 and par. 7 of art. 142 of Law 4261/2014. In this case the Fund takes over the rights of the HDIGF as per par. 4 of art. 13A of Law 3746/2009. In this context, the HFSF's receivables include the funding gap the HFSF contributed the financial institutions which were resolved instead of HDIGF.

The decision for the resolution of a credit institution is made by the Bank of Greece (BoG). BoG decides the initial funding gap of the resolved financial institution and six months after determines the final funding gap. Upon the initial decision of the funding gap the Fund is obliged to pay the two thirds (2/3) of the amount and upon its finalisation the Fund pays the difference to the final amount. The amount paid is recorded under the financial statements line (“F/S line”) “Receivables from the banks under liquidation” and for the remaining one third (1/3) which is considered as the best estimate a provision is recognized by the Fund.

In case that BoG announces the final funding gap up to the date of the Fund's issuance of financial statements, the event is considered adjusting and a liability is recognised.

### **Impairment of Receivables from Banks under liquidation**

The Fund assesses at each reporting date whether there is objective evidence that the receivables from banks under liquidation are impaired.



A receivable from banks under liquidation is impaired if and only if there is objective evidence of impairment as a result of one or more events that occurred and this event has impact on the estimated cash flows of the receivable that can be reliably estimated. Impairment is recognised if there is objective evidence that the Fund will not be able to receive the full amount. Objective evidence that a receivable is impaired includes observable data that come to the attention of the Fund about the following loss events:

- a. adverse economic and financial performance,
- b. existence of losses of the banks under liquidation,
- c. the existence of qualification of the audit opinion of the banks' under liquidation financial statements that might adversely affect the receivables and
- d. legal constraints arising from liquidation process, which proves that the receivables may not be recoverable.

The impairment loss is reported through financial line "Impairment of receivables from banks under liquidation" in the statement of comprehensive income. 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 recognized, the previously recognized impairment loss is reversed by adjusting the "Impairment of investments and receivables and provision charges for funding gap" account. The amount of the reversal is recognized in the Statement of Comprehensive Income. Subsequent recoveries are credited to the "Impairment of receivables from banks under liquidation" account in the Statement of Comprehensive Income.

## **2.7 Recognition of deferred profit or loss on the transaction date**

There are cases where the fair value of financial instruments is determined through the use of valuation models, which are based on prices or ratios, which are not always available in the market. In these cases, initially, the financial instrument is recognized by the Fund at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. Such a difference between the transaction price and the model value is commonly referred to as "Day 1 profit or loss". The Fund does not recognize that initial difference, immediately in the income statement.

Deferred Day 1 profit or loss is amortised over the life of the instrument. Any unrecognized Day 1 profit or loss is immediately recognized in the statement of comprehensive income if the fair value of the financial instrument in question can be determined either by using market observable model inputs or by reference to a quoted price for the same product in an active market or upon settlement. After entering into a transaction, the Fund measures the financial instrument at fair value, adjusted for the deferred Day 1 profit or loss. Subsequent changes in fair value are recognized immediately in the statement of comprehensive income without reversal of deferred Day 1 profits and losses.

## **2.8 Derecognition**

### **2.8.1. Financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" arrangement; or
- the Fund has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Fund has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Fund's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Fund could be required to repay.



## 2.8.2 Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Income statement.

## 2.9 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments using the effective interest rate method. Interest income includes interest coupons earned from floating income investments and interest-bearing cash balances with the BoG.

Fees and direct costs relating to acquiring a security are deferred and amortised to interest income over the life of the instrument using the effective interest rate method.

## 2.10 Income from CoCos

The payment of coupon from CoCos lies to the banks' sole discretion, therefore the income from CoCos is recognized in the statement of comprehensive income upon the Bank's BoD approval for payment.

## 2.11 Fees and commissions

Fees and commissions are generally recognized on an accrual basis over the period the service is provided. Commissions and fees arising from regulatory framework are recognised upon completion of the underlying transaction.

## 2.12 Property and Equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Fund for use in the supply of services or for administrative purposes. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition.

Subsequent to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalized, only when it is probable that they will result in future economic benefits to the Fund beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognized. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated, but its useful life is reassessed. Property and equipment are depreciated on a straight-line basis over their estimated useful lives. The estimated useful life of property and equipment relating to leasehold improvements and transportation means is until 30/06/2020 and for furniture and equipment up to 3 years.

At each reporting date the Fund assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Fund estimates the recoverable amount of the asset. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in profit / (loss) for the year.

## 2.13 Intangible assets

Intangible assets includes costs that are directly associated with identifiable and unique software products that are anticipated to generate future economic benefits beyond one year. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of the software. Intangible assets are amortized using the straight-line method over the useful life of the asset and up to 30/06/2020.



## 2.14 Provisions

Provisions are recognized when the Fund has a present obligation (legal or constructive) as a result of past events and it is probable that Fund will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the obligation at the end of the reporting period, taking into account the risks and the uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

## 2.15 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Executive Board of the Fund, which is the chief operating decision maker responsible for the allocation of resources between the Fund's operating segments and the assessment of their performance. It is noted that the methods used to measure operating segments for the purpose of reporting to the Executive Board are not different from those required by the IFRS. Income and expenses directly associated with each segment are included in determining business segment performance.

## 2.16 Related Party Transactions

Related parties include the Fund's Management, close relatives to the Fund's Management, companies owned by the Fund's Management or credit institutions in which the Fund has substantial influence in the financial and operating policies.

## 2.17 Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalents comprise of cash in hand, sight deposits in banks and deposits in the Central Bank, but excludes EFSF FRNs which are medium to long-term notes and are not considered as cash equivalents.

## 2.18 Operating Lease as a Lessee

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Comprehensive Income on a straight-line basis over the period of the lease.

## 2.19 Tax Regime

Law 3864/2010 establishes that the Fund shall enjoy all the administrative, financial and judicial immunities applicable to the government, being exempted from any direct or indirect taxes, contributions in favour of third parties and duties of any nature, excluding VAT.

## 2.20 Adoption of International Financial Reporting Standards (IFRS)

**New standards, amendments and interpretations to existing standards applied from 1 January 2017**

### Amendments

- **IAS 7 (Amendments) Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017).** The amendment requires that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The Fund has not applied these amendments, but they are not expected to have a material impact on its financial statements.

- **IAS 12 (Amendments) Recognition of Deferred Tax Assets for Unrealised Losses** (effective for annual periods beginning on or after 1 January 2017, as issued by the EU). This amendment clarifies the following aspects: Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use. The carrying amount of an asset does not limit the estimation of probable future taxable profits. Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences. An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.





- **Annual Improvements to IFRSs 2014-2016 Cycle** (effective for annual periods beginning on or after 1 January 2017 and on or 1 January 2018, as issued by IASB). The amendments impact the following standards:

**IFRS 1** - Deletes the short-term exemptions in paragraphs E3-E7 of IFRS 1, because they have now served their intended purpose (effective for annual periods beginning on or after 1 January 2018, as issued by IASB).

**IFRS 12** - Clarifies the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 January 2017, as issued by IASB).

**IAS 28** - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition (effective for annual periods beginning on or after 1 January 2018, as issued by IASB).

The Fund has not applied these amendments and is not expecting to have material impact to the financial statements.

#### **New standards, amendments and interpretations to existing standards effective after 2017. New standards effective after 2017**

**IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018 as issued by the IASB). IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended (a) in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and (b) in November 2013 to include the new general hedge accounting model. In July 2014, the final version of IFRS 9, which supersedes all previous versions, was issued mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

#### **Key requirements of IFRS 9:**

- All recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI, unless the asset is designated at fair value through profit or loss under the fair value option. All other debt instruments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at FVTPL, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.



- Put in place a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised. With the exception of purchased or originated credit-impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to:
  - the 12-month expected credit losses (expected credit losses that result from those default events on the financial instrument that are possible within 12 months after the reporting date); or
  - full lifetime expected credit losses (expected credit losses that result from all possible default events over the life of the financial instrument).
- A loss allowance for full lifetime expected credit losses is required for a financial instrument if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with IFRS 15. Purchased or originated credit-impaired financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, an entity would recognise changes in lifetime expected losses since initial recognition as a loss allowance with any changes recognised in profit or loss. Under the requirements, any favourable changes for such assets are an impairment gain even if the resulting expected cash flows of a financial asset exceed the estimated cash flows on initial recognition.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of risk components that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an “economic relationship”. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

**The Fund intends to apply this standard on January 1, 2018. However, its impact is not expected to be significant, as the Fund does not hold debt, equity or other financial instruments, the classification or measurement of which is significantly affected by the principles of the new standard. More specifically:**

#### **Common shares to the four systemic banks**

As also stated in note 2.2. above, under IAS 39, the Fund had irrevocably elected at initial recognition to classify and measure the common shares it holds on the four systemic banks at FVTPL in order to eliminate or significantly reduce the accounting mismatch that would otherwise arise since the related derivatives (.i.e. warrants) issued by the Fund are designated at FVTPL. In case of an accounting mismatch, this option is also applicable under IFRS 9 principles [IFRS 9, paragraph 4.1.5]. Moreover, IFRS 9 provides that all equity investments are to be measured at fair value in the statement of financial position, with value changes recognised in profit or loss, except for those equity investments for which the entity has elected to present value changes in 'other comprehensive income'. Consequently, IFRS 9 is expected to have no impact on the classification and measurement of the common shares to four systemic banks.

#### **Contingent Convertible bonds (CoCos) issued by Piraeus Bank**

CoCos are hybrid securities which combine a host contract with an embedded derivative not closely related which is the issuer’s option to redeem the instrument in cash. As also stated in note 2.2. above, under IAS 39, the Fund has elected to designate the entire contract at FVTPL at initial recognition and not bifurcate the host contract. This treatment is in line with the new principles of IFRS 9 which eliminates the requirement to separately account for embedded derivatives that under IAS 39 would have been separately accounted for at FVTPL because they were not closely related to the host financial asset. Instead, the contractual cash flows of the financial asset are assessed in their entirety,



and the asset as a whole is measured at FVTPL if the contractual cash flow characteristics test is not passed [IFRS 9, paragraph 4.3.6] as it happens in the case of CoCos. Consequently, IFRS 9 is expected to have no impact on the classification and measurement of the CoCos issued by Piraeus Bank.

#### **Receivables from banks under liquidation**

The recoverable amount of the receivables from banks under liquidation is currently presented in the Fund's Statement of Financial Position based on the net realizable value of their assets after the deduction of the projected operational expenses. The recoverable amount of their loan portfolio, which is the most material amount of their total assets, is calculated based on the realizable value of the underlying collaterals. Regarding the purchased or originated credit-impaired financial assets, IFRS 9 provides that an entity would recognise changes in lifetime expected losses since initial recognition as a loss allowance with any changes recognised in profit or loss. Under the requirements, any favourable changes for such assets are an impairment gain even if the resulting expected cash flows of a financial asset exceed the estimated cash flows on initial recognition [IFRS 9 paragraphs 5.5.13 - 5.5.14]. Based on the above and the fact that the cash flows from these receivables do not pass the test of solely payments of principal and interest, the methodology already applied by the Fund and thoroughly described in note 2.6 above is not expected to be changed under the expected loss model of IFRS 9.

**IFRS 15 Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2018 as issued by the IASB). IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a five-step approach to revenue recognition:

- Identify the contract with the customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contracts
- Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The Fund has not applied this standard and is not expecting to have material impact on the financial statements.

**IFRS 16 Leases** (effective for annual periods beginning on or after 1 January 2019, as issued by the IASB). IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

#### **Identifying a lease**

A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### **Accounting by lessees**

Upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. After lease commencement, a lessee shall measure the right-of-use



asset at cost less accumulated depreciation and accumulated impairment, except for certain cases for which fair value or the revaluation model applies.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

### **Accounting by lessors**

Lessors shall classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise, a lease is classified as an operating lease.

Upon lease commencement, a lessor shall recognise assets held under a finance lease as a receivable at an amount equal to the net investment in the lease. A lessor recognises finance income over the lease term of a finance lease, based on a pattern reflecting a constant periodic rate of return on the net investment. A lessor recognises operating lease payments as income on a straight-line basis or, on another systematic basis if more representative of the pattern in which benefit from use of the underlying asset is diminished.

### **Sale and leaseback transactions**

To determine whether the transfer of an asset is accounted for as a sale an entity applies the requirements of IFRS 15 for determining when a performance obligation is satisfied. If an asset transfer satisfies IFRS 15's requirements to be accounted for as a sale the seller measures the right-of-use asset at the proportion of the previous carrying amount that relates to the right of use retained. Accordingly, the seller only recognises the amount of gain or loss that relates to the rights transferred to the buyer. If the fair value of the sale consideration does not equal the asset's fair value, or if the lease payments are not market rates, the sales proceeds are adjusted to fair value, either by accounting for prepayments or additional financing.

The Fund has not applied this standard and is currently evaluating its impact on the financial statements. However, given the fact that the only lease agreement for the use of a high-value asset and duration for more than 12 months, under which the Fund acts as lessee is the lease agreement for the use of its headquarters, IFRS 16 is not expected to have a material impact on the financial statements.

### **Amendments to standards and interpretations effective after 2017**

**IAS 40** (Amendment) Transfers to Investment Property (effective for annual periods beginning on or after 1 January 2018 as issued by the IASB). It amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of examples of evidence in paragraph 57 (a) - (d) is now presented as a non-exhaustive list of examples instead of the previous exhaustive list.

**IFRS 2** (Amendment) Clarification and Measurement of share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018 as issued by the IASB). The amendment clarifies the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance condition, the classification of share-based payment transactions with net settlement features, and the accounting for modifications of share-based payment transactions from cash-settled to equity-settled.

**IFRS 4** (Amendment) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 as issued by the IASB, overlay approach to be applied when IFRS 9 is first applied). The amendment provides two options for entities that issued insurance contracts within the scope of IFRS 4. An option (overlay approach) that permits entities to reclassify from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial asset. An optional temporary exemption (deferral approach) from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4.



## **Annual Improvements to IFRSs 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019, as issued by the IASB)**

The amendments introduce key changes following the publication of the results of the IASB's 2015-17 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

**IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:** It is clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party remeasures the entire previously held interest in the assets and liabilities of the joint operation at fair value.
- If a party obtains joint control, then the previously held interest is not remeasured.

**IAS 12 Income Taxes:** It is clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, depending on where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.

**IAS 23 Borrowing costs:** It is clarified that any borrowing originally made to develop a qualifying asset should be treated as part of general borrowings when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The adoption of the amendments is not expected to impact the Group's consolidated financial statements.

**IFRS 9 (Amendment) Prepayment Features with Negative Compensation** (effective for annual periods beginning on or after 1 January 2019). The amendment to IFRS 9 allows companies to measure particular prepayable financial assets with so-called negative compensation at amortized cost or at FVTOCI if a specified condition is met, instead of at FVTPL.

**IAS 28 (Amendment) Long-Term Interests in Associates and Joint Ventures** (effective for annual periods beginning on or after 1 January 2019, as issued by the IASB). The amendments to IAS 28 clarify that companies should account for long-term interests in an associate or joint venture, to which the equity method is not applied, using IFRS 9.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Fund's financial statements.

## **Note 3 | Critical Accounting Estimates and Assumptions in the Application of Accounting Principles**

The preparation of financial statements in accordance with IFRS requires that the management makes judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expense in the financial statements. The management believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as of 31/12/2017. The most significant areas, for which judgments, estimates and assumptions are required in applying the Fund's accounting policies, are the following:

### **Recoverability of receivables**

The Fund assesses at each reporting date whether there is objective evidence that a receivable may not be recoverable. The Fund makes judgments as to whether there is any observable data indicating there is measurable variation in the estimated future cash flows from the receivables. This evidence may include observable data indicating that there has been an adverse economic and financial performance, existence of losses of the banks under liquidation, the existence of qualification in the audit opinion on the financial



statements of the banks' under liquidation financial statements that might adversely affect the receivables and legal constraints arising from the liquidation process, which proves that the receivables may not be recoverable. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between estimated and realized losses.

The liquidator of credit institutions under liquidation are nominated by the Bank of Greece ("BoG") and are subject to its monitor and control. The officers and the staff of the credit institutions under liquidation have to cooperate with the liquidator and follow the instructions of the BoG. Further to that, L. 4172/2013 provides for a Special Liquidation Committee responsible for deciding upon major issues on the liquidation process which is nominated by the BoG. On 04/04/2016, BoG appointed PQH Single Special Liquidation S.A. as Special Liquidator for all the banks under liquidation, aiming to ensure a more efficient management of their assets and a higher performance against the operational targets. PQH, jointly owned by PwC Business Solutions S.A., Qualco S.A. and Hoist Kredit Aktiebolag, replaced the previous liquidators and took up the management of all the banks under liquidation.

The recent L. 4254/2014 explicitly states that the monitoring and supervision of the actions and decisions of the bodies of the special liquidation of the credit institutions do not fall within the responsibility of the Fund and the decision making bodies of the Fund shall have no authority with respect to acts or omissions of the bodies accountable for the special liquidation proceedings of credit institutions. Therefore, the Fund has no involvement or control over the liquidation process and the recovery of any amounts, but nevertheless maintains its own independent valuation estimates over amounts to be recovered.

## Fair value of financial instruments

For financial assets and financial liabilities traded in active markets, the determination of their fair value is based on quoted, market prices. Valuation techniques were used for the determination of the fair value of the EFSF and ESM Notes either disclosed in the financial statements of the Fund or contributed in kind in the context of banks recapitalization process. Similarly, CoCos issued by Piraeus bank's were valued using an option-style valuation technique in accordance with IFRS 13. Under this approach the expected cash flows are projected by developing multiple scenarios that reflect on the specific underlying characteristics of CoCos and applying decisions as if these were made by rational investors. Both market and unobservable inputs have been used in the valuation approach and several variables were taken into account as relevant. Management believes that the fair value assessment is prudent and reflective of the underlying economics.

## Note 4 | Segment Reporting

The Fund's operating segments are consistent with the management reporting system. Income and expenses are associated with each segment and are included in determining business segment performance. The Fund has no geographical segments as, according to its founding law, its operations are solely in Greece. The Fund has no intersegment/intragroup transactions as it does not consolidate any of its investments and each of its business segments is independent. The Fund operates through the following business segments:

**Systemic Banks:** This segment includes all the financial institutions which had received capital advances and were eventually recapitalized by the Fund in 2013 and 2015 as per capital requirements, i.e. Alpha Bank, Eurobank, NBG and Piraeus Bank.

**Transitional Credit Institutions (TCIs) & Banks under Liquidation:** This segment includes a) the credit institutions, which had been acquired either as a result of a resolution or the incorporation of new transitional credit institutions, namely New HPB and New Proton and b) the banks which have been placed under liquidation and the Fund has provided for their funding gap on behalf of the HDIGF, in accordance with the Law 4051/2012 as amended by Law 4224/2013.



**Other:** This segment includes the Fund's results relating to internal operations and procedures which ensure the appropriate design and implementation of the Fund's policies and principles. It also includes the cash and balances with banks and the interest income derived from both cash and balances with banks as well as European Financial Stability Facility floating rate notes (EFSF FRNs).

### Analysis by Operating Segment

Amounts in €	01/01/2017-31/12/2017			
	Systemic Banks	TCIs & Banks under Liquidation	Other	Total
Interest income	-	-	35,218,317	<b>35,218,317</b>
Income from CoCos	165,466,644	-	-	<b>165,466,644</b>
Personnel expenses	(1,822,804)	(297,259)	(789,810)	<b>(2,909,872)</b>
General administrative & other operating expenses	(3,146,789)	(99,421)	(1,582,123)	<b>(4,828,332)</b>
Impairment (charges)/reversals of receivables from banks under liquidation	-	(71,242,999)	-	<b>(71,242,999)</b>
Gain/(loss) from financial instruments at FVTPL	49,472,406	-	-	<b>49,472,406</b>
Depreciation and amortization	(49,855)	(14,244)	(7,122)	<b>(71,222)</b>
Other income	-	-	5,605	<b>5,605</b>
<b>Profit/(Loss) for the year</b>	<b>209,919,603</b>	<b>(71,653,923)</b>	<b>32,844,868</b>	<b>171,110,548</b>
				31/12/2017
<b>Total segment assets</b>	<b>3,812,667,727</b>	<b>1,650,954,992</b>	<b>1,050,930,847</b>	<b>6,514,553,566</b>
<b>Total segment liabilities</b>	<b>(1,461,223)</b>	<b>(63,153)</b>	<b>(402,712)</b>	<b>(1,927,089)</b>



	Systemic Banks	TClS & Banks under Liquidation	Other	Total
Interest income	-	-	16,151,469	<b>16,151,469</b>
Income from CoCos	333,666,997	-	-	<b>333,666,997</b>
Personnel expenses	(1,716,663)	(263,510)	(698,364)	<b>(2,678,537)</b>
General administrative & other operating expenses	(4,137,011)	(182,845)	(1,561,742)	<b>(5,881,598)</b>
Impairment of receivables from banks under liquidation	-	(160,312,857)	-	<b>(160,312,857)</b>
Gain/(loss) from financial instruments at FVTPL	(649,609,576)	-	-	<b>(649,609,576)</b>
Depreciation and amortization	(53,173)	(15,192)	(7,596)	<b>(75,961)</b>
Other income	-	-	10,780	<b>10,780</b>
<b>Profit/(Loss) for the year</b>	<b>(321,849,426)</b>	<b>(160,774,404)</b>	<b>13,894,547</b>	<b>(468,729,283)</b>
<b>Total segment assets</b>	<b>3,767,338,955</b>	<b>1,862,011,241</b>	<b>2,747,242,765</b>	<b>8,376,592,961</b>
<b>Total segment liabilities</b>	<b>(5,479,253)</b>	<b>(73,248)</b>	<b>(324,531)</b>	<b>(5,877,032)</b>





## Note 5 | Cash and Balances with Banks

Amounts in €	31/12/2017	31/12/2016
Cash and balances with banks	23,739	10,118
Balances with Central Bank	245,002	144,946
Cash management account in BoG	1,035,799,057	2,737,026,753
<b>Total</b>	<b>1,036,067,798</b>	<b>2,737,181,817</b>

The “cash and balances with banks” line includes the cash in hand and a non-interest bearing sight account with a retail bank for the Fund’s day-to-day obligations.

The “Balances with Central Bank” line relates to balances, which are compulsory deposited and maintained in a special interest account at BoG for the Fund’s day-to-day obligations.

According to the Law 4323/2015, the Fund is obliged to deposit in a cash management account in BoG any cash balances that are not necessary for covering the current cash needs. The cash balance in the cash management account is at all times available to be utilized by the Fund in order to fulfil its purposes.

The cash in the cash management account is placed on repos, reverse repos, buy/sell back, sell/buy back with counterparty the Greek State in accordance with paragraph 11 (g) of the art. 15 of Law 2469/1997.

## Note 6 | Financial Assets at Fair Value through Profit or Loss

The balance includes the Fund’s participation in the four systemic banks and the CoCos issued by Piraeus Bank, as presented in the following table:

Amounts in €	31/12/2017	31/12/2016
Participation in the systemic banks	1,879,390,727	1,753,576,955
CoCos issued by Piraeus Bank	1,933,277,000	2,013,762,000
<b>Total</b>	<b>3,812,667,727</b>	<b>3,767,338,955</b>

### Shares in systemic banks

The Fund has classified under this line the shares received from its participation in the share capital increases (SCI) of the four systemic banks that took place in 2013 and the share capital increases of NBG and Piraeus Bank that took place in December of 2015. The Fund has designated these shares at initial recognition at fair value through profit or loss and subsequently the gains or losses are recognized in the statement of comprehensive income.

### Fair value of shares

The following table presents the fair value of the shares per bank as well as the Levels of the fair value hierarchy. The fair value of the shares was determined based on the market prices in the Athens Exchange (ATHEX) at the reporting date. The Level 1 classification is based on the fact that the market prices are unadjusted quotes in an active market.



Amounts in €	Fair value	Fair value hierarchy			Fair value
	31/12/2017	Level 1	Level 2	Level 3	31/12/2016
Alpha Bank	302,314,236	302,314,236	-	-	321,432,777
Eurobank	44,268,572	44,268,572	-	-	33,592,034
NBG	1,178,605,394	1,178,605,394	-	-	916,282,909
Piraeus Bank	354,202,524	354,202,524	-	-	482,269,235
<b>Total</b>	<b>1,879,390,727</b>	<b>1,879,390,727</b>	<b>-</b>	<b>-</b>	<b>1,753,576,955</b>

### Movement of shares

The movement of the Fund's participations in the systemic banks during 2017 is presented in the table below:

No of Shares	Alpha Bank	Eurobank*	NBG	Piraeus Bank**
Shares held as of 31/12/2016	169,175,146	52,080,673	3,694,689,147	115,375,415
Additions	-	-	-	-
Disposals	(979)	-	(1,391)	-
<b>Shares held as of 31/12/2017</b>	<b>169,174,167</b>	<b>52,080,673</b>	<b>3,694,687,756</b>	<b>115,375,415</b>
of which:				
Shares with restricted voting rights	169,174,167	52,080,673	134,818,596	2,042,082
Shares with full voting rights	-	-	3,559,869,160	113,333,333
<b>Participation with restricted voting rights</b>	<b>10.96%</b>	<b>2.38%</b>	<b>1.47%</b>	<b>0.47%</b>
<b>Participation with full voting rights</b>	<b>0.00%</b>	<b>0.00%</b>	<b>38.92%</b>	<b>25.95%</b>

\* The shares are freely transferrable without relating to warrants issued.

\*\* Out of the total number of shares held by the Fund, 3,082,353 shares, after the reverse split, correspond to the part of the share capital increase which pertained to the Cypriot banks (€ 524m) and are freely transferrable (no warrants issued).

\*\* After the reverse split in August of 2017 the number of shares held by the Fund changed from 2,307,508,300 to 115,375,415 shares.

The Fund's cumulative gain from all warrants' exercises that have taken place up to 31/12/2017 amounted to €11.9m.

On 11/12/2017 the ninth and last exercise of Alpha Bank's warrants took place. There were 6,608 warrants exercised and 979 shares exchanged, resulting to the Fund receiving €27,143. The outstanding warrants on that date were automatically expired and cancelled.

On 27/12/2017 the ninth and last exercise of NBG Bank's warrants took place. There were 2,538 warrants exercised and 1,391 shares exchanged, resulting to the Fund receiving €112,804. The outstanding warrants on that date were automatically expired and cancelled.

On 02/01/2018 the ninth and last exercise of Piraeus Bank's warrants took place. There were 7,136 warrants exercised and 15 shares exchanged, resulting to the Fund receiving €64,260. The outstanding warrants on that date were automatically expired and cancelled.



HFSF's percentage participation in systemic banks as of 31/12/2017 and 31/12/2016 was as follows:

Percentage Participation	31/12/2017	31/12/2016
Alpha Bank	10.96%	11.01%
Eurobank	2.38%	2.38%
NBG	40.39%	40.39%
Piraeus Bank	26.42%	26.42%

### Credit rating of the four banks

The long term credit ratings of the four banks as of the date of the approval of the interim financial statements, per international credit rating agency, are provided in the table below:

Banks	Fitch	S&P	Moodys
Alpha Bank	RD	B-	Caa2
Eurobank	RD	B-	Caa2
NBG	RD	B-	Caa2
Piraeus Bank	RD	B-	Caa2

### Contingent Convertible bonds (CoCos)

Following the recapitalization of NBG and Piraeus Bank in December 2015 and in accordance with par.2 and 5c of Law 3864/2010 and Cabinet Act No 36/2015, HFSF contributed European Stability Mechanism (ESM) FRNs and in return received common shares (25% of the capital support) and CoCos (75% of the capital support). HFSF acquired from NBG the principal amount of €2,029,200,000 denominated in 20,292 bonds of a nominal value of €100,000 each that were redeemed on 15/12/2016 and from Piraeus Bank the principal amount of €2,040,000,000 denominated in 20,400 bonds of a nominal value of €100,000 each still outstanding on 31/12/2017. CoCos were issued by Piraeus Bank and NBG on 02/12/2015 and 09/12/2015 respectively at par and are perpetual without a fixed repayment date. CoCos are governed by Greek law, do not carry rights and constitute direct, unsecured and subordinated investments in the two banks, ranking at all times pari passu with common shareholders.

CoCos are hybrid securities that exhibit characteristics of both debt and equity. They are essentially another capital raising option, which enable banks to meet regulatory capital requirements, through strengthening their capital ratios. CoCos issued by NBG and Piraeus Bank were taken into account in the Common Equity Tier 1 (CET1) ratio. The key features of CoCos are outlined below.

### Key features of CoCos

#### Maturity and interest

The CoCos do not have a maturity date (perpetual securities). They bear return at 8% per annum for the first seven years and thereafter the interest rate is set to 7-year Mid-Swap Rate plus margin. Payment of interest (whether in whole or in part) is entirely at the discretion of the bank's BoD. Any such interest elected not to be paid is cancelled and does not accumulate. However, if the bank does not pay all or any part of any scheduled interest payments more than once, then the CoCos are automatically converted into ordinary shares of the bank. The bank's BoD has the option, at its full discretion, to pay interest in the form of newly issued ordinary shares, the number of which shall be equal to the interest payment divided by the share's current price on the interest payment date. Any interest payment shall be subject to the operation of any applicable Maximum Distributable Amount as stands pursuant to Article 141 of the Capital Requirements Directive. A mandatory interest cancellation exists, if the payment would cause the maximum distributable amount, then applicable, to be exceeded. If the bank decides not to pay the interest on CoCos, no dividend shall be paid. The payment of coupon from CoCos lies to the banks' sole discretion, therefore the income from CoCos will be recognized in the statement of comprehensive income upon the Bank's BoD approval for payment.



### Conversion upon a trigger event

If the CET1 ratio of the bank, calculated on a consolidated or a solo basis, is lower than 7% or the bank misses a second coupon payment, the CoCos are automatically converted into ordinary shares. The number of ordinary shares is determined by dividing 116% of the nominal value of the then outstanding CoCos by the subscription price (€ 0.30) in the recapitalization of 2015. The same rule applies, if the HFSF decides to exercise its option on the 7th annual anniversary from the issuance date.

### Embedded Optionalities

The following options are embedded into CoCos:

- The bank's option to redeem the CoCos in cash, in whole or in part, at any time, at 100% of the principal, together with any accrued but unpaid interest, provided that all necessary regulatory approvals are obtained.
- The HFSF's option to convert the CoCos into the bank's ordinary shares in December 2022.
- The Bank's option to cancel interest payment once, without resulting in a trigger event.
- The Bank's option to pay interest in common shares instead of cash.

### Annual Income from CoCos and Redemption of NBG's CoCos

In December 2017 the Fund received in cash the total amount of €165.5m relating to the annual coupon of CoCos issued by Piraeus Bank.

### Fair value of CoCos

The notional amount and fair value of CoCos per bank as of 31/12/2017 and 31/12/2016 are presented as follows:

Amounts in €	Fair Value		Notional Amount	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
CoCos issued by Piraeus Bank	1,933,277,000	2,013,762,000	2,040,000,000	2,040,000,000
<b>Total</b>	<b>1,933,277,000</b>	<b>2,013,762,000</b>	<b>2,040,000,000</b>	<b>2,040,000,000</b>

The valuation technique uses significant unobservable inputs and therefore the valuation of CoCos is categorized as Level 3 instrument within the fair value hierarchy.

### Description of the valuation technique and inputs used

CoCos are not traded in a market, therefore according to IFRS 13 the fair value must be estimated using a valuation technique that is appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

CoCos were valued using an option-style valuation technique which is considered the most appropriate and preferable methodology in order to value derivative instruments such as CoCos and is applied according to IFRS 13. Under this approach, the expected cash flows are projected under different sets of conditions to yield a range of possible outcomes, using a multivariate Monte Carlo Simulation ("MCS"). The multivariate MCS technique is considered an appropriate methodology for developing multiple scenarios that reflect the specific underlying characteristics of CoCos and applying decisions, as if rational investors made these, in order to derive the expected cash flow or value.

The key parameters of the valuation technique selected are CET1 ratio, share price and market interest rates. The valuation technique was calibrated so that the fair value of the CoCos equals the transaction price at initial recognition.



## CoCos' fair value movement

Amounts in €	CoCos of Piraeus Bank
<b>Balance 1 January 2017</b>	<b>2,013,762,000</b>
Unrealized loss recognized in the income statement	(80,485,000)
<b>Balance 31 December 2017</b>	<b>1,933,277,000</b>

### Significant unobservable inputs and sensitivity analysis of CoCos' fair value

Both market and unobservable inputs have been used in the valuation approach and several variables were taken into account as relevant. The quantitative information about the significant unobservable inputs as of 31/12/2017 is presented in the following table:

Unobservable Inputs	Piraeus Bank
Volatility of CET1 ratio	42%
Long-term volatility of share price	50%
Correlation between CET1 and share prices	90%
Correlation between interest rates and share prices	40%

An increase/(decrease) in the volatility of CET1 ratio would result in a decrease/(increase) in the fair value of CoCos. A reasonable change in the volatility of CET1 ratio would not result in a significant change of the fair value of CoCos as of the reporting date.

An increase/(decrease) in the long-term volatility of share price would result in an decrease/(increase) in the fair value of CoCos. A reasonable change in the long-term volatility of share price would not result in a significant change of the fair value of CoCos as of the reporting date.

A decrease in the correlation between share price and CET1 ratio would result in an increase in the fair value of CoCos. A reasonable change in the correlation between share price and CET1 ratio would not result in a significant change of the fair value of CoCos as of the reporting date.

An increase/(decrease) in the correlation between market interest rates and share price would result in a decrease/(increase) in the fair value of CoCos. A reasonable change in the correlation between market interest rates and share price would not result in a significant change of the fair value of CoCos as of the reporting date.

The combined effect of a reasonable change in the CET1 volatility and the share price volatility would not result in a material change in the fair value of the CoCos.

### Valuation process

The valuation of the CoCos was performed by an independent valuation expert using the assumptions approved by the HFSF's Management. HFSF reviewed the valuation method and the inputs used in accordance with the HFSF relative control procedures.



## Note 7 | Property and Equipment

Amounts in €	Vehicles & equipment	Leasehold improvements	Total
<b>Balance 1 January 2016</b>	<b>191,768</b>	<b>157,209</b>	<b>348,977</b>
Additions	34,925	-	34,925
Disposals and write-offs	(822)	-	(822)
<b>Balance 31 December 2016</b>	<b>225,871</b>	<b>157,209</b>	<b>383,080</b>
Accumulated depreciation	(149,340)	(116,256)	(265,596)
Depreciation charge	(22,470)	(26,198)	(48,668)
Disposals and write-offs	310	-	310
<b>Balance - 31 December 2016</b>	<b>(171,500)</b>	<b>(142,454)</b>	<b>(313,954)</b>
<b>Net book value 31 December 2016</b>	<b>54,371</b>	<b>14,755</b>	<b>69,126</b>
<b>Balance 1 January 2017</b>	<b>225,871</b>	<b>157,209</b>	<b>383,080</b>
Additions	84,792	-	84,792
<b>Balance 31 December 2017</b>	<b>310,663</b>	<b>157,209</b>	<b>467,872</b>
Accumulated depreciation	(171,500)	(142,454)	(313,954)
Depreciation charge	(27,961)	(14,743)	(42,704)
<b>Balance - 31 December 2017</b>	<b>(199,461)</b>	<b>(157,197)</b>	<b>(356,658)</b>
<b>Net book value 31 December 2017</b>	<b>111,202</b>	<b>12</b>	<b>111,214</b>

## Note 8 | Intangible Assets

Amounts in €	Software
<b>Balance 1 January 2016</b>	<b>77,408</b>
Additions	41,717
<b>Balance 31 December 2016</b>	<b>119,125</b>
Accumulated depreciation	(57,701)
Depreciation charge	(26,869)
<b>Balance 31 December 2016</b>	<b>(84,570)</b>
<b>Net book value 31 December 2016</b>	<b>34,555</b>
<b>Balance 1 January 2017</b>	<b>119,125</b>
Additions	19,113
<b>Balance 31 December 2017</b>	<b>138,238</b>
Accumulated depreciation	(84,570)
Depreciation charge	(28,518)
<b>Balance 31 December 2017</b>	<b>(113,088)</b>
<b>Net book value 31 December 2017</b>	<b>25,150</b>



## Note 9 | Receivables from Banks under Liquidation

According to par. 15 of art. 9 of Law 4051/2012, as amended by Law 4224/2013, the Fund became liable to pay until 31/12/2014 the amount that the HDIGF would have covered, in the context of the resolution of the financial institutions, as foreseen by par. 13 of art. 141 and par. 7 of art. 142 of Law 4261/2014. In this case, the Fund took over the rights of HDIGF as per par. 4 of art. 13A of Law 3746/2009. In this context, HFSF's receivables are a combination of its contribution of EFSF FRNs and cash, instead of the HDIGF, in order to cover the funding gap of financial institutions, which were resolved.

The liquidator of credit institutions under liquidation is nominated by the BoG and is subject to its monitor and control. On 04/04/2016, BoG appointed PQH Single Special Liquidation S.A. as Special Liquidator for all the banks under liquidation, aiming to ensure a more efficient management of their assets and a higher performance against the operational targets. PQH, jointly owned by PwC Business Solutions S.A., Qualco S.A. and Hoist Kredit Aktiebolag, replaced the previous liquidators and took up the management of all the banks under liquidation.

Further to that, the Fund's law, as amended by Law 4254/2014, explicitly states that the monitoring and supervision of the actions and decisions of the bodies of the special liquidation of the credit institutions do not fall within the functions of the Fund and therefore, the Fund has no involvement or control over the liquidation process and the recovery of any amounts, nevertheless the Fund maintains its own independent valuation estimates over amounts to be recovered, based on data provided by the liquidator.

Up to 31/12/2017 the total amount provided by the Fund to cover funding gap reached the amount of €13,489m, out of which €656m were recovered and € 11,182m were assessed as non-recoverable. During 2017 the Fund recognized in the statement of comprehensive income a loss resulting from the impairment charge amounting to €71m and received the total amount of €140m.



The funding gap, the cumulative impairment and the collections per bank under liquidation as of 31/12/2017 are presented in the following table:

Amounts in €

Bank under Liquidation	Funding Gap	Cumulative Impairment	Cumulative Collections	Estimated Recoverable Amount
Achaiki Cooperative Bank	209,473,992	(119,993,500)	(52,000,000)	37,480,492
ATEbank	7,470,717,000	(5,823,744,540)	(431,500,000)	1,215,472,460
Dodecanese Cooperative Bank	258,547,648	(148,159,788)	(72,000,000)	38,387,860
Evia Cooperative Bank	105,178,136	(85,464,521)	(2,200,000)	17,513,615
First Business Bank	456,970,455	(397,622,124)	(12,500,000)	46,848,331
Hellenic Post Bank	3,732,554,000	(3,484,655,308)	(18,500,000)	229,398,692
Lamia Cooperative Bank	55,493,756	(30,221,548)	(12,500,000)	12,772,208
Lesvos-Limnos Cooperative Bank	55,516,733	(38,664,777)	(12,300,000)	4,551,956
Probank	562,733,502	(519,769,011)	(13,500,000)	29,464,491
Proton Bank	259,621,860	(244,760,837)	(8,490,727)	6,370,296
T-Bank	226,956,514	(223,603,514)	(3,353,000)	-
Western Macedonia Cooperative Bank	95,244,475	(65,549,884)	(17,000,000)	12,694,591
<b>Total</b>	<b>13,489,008,071</b>	<b>(11,182,209,352)</b>	<b>(655,843,727)</b>	<b>1,650,954,992</b>

The movement of the Fund's receivables, including impairment charges and collections, from the banks under liquidation during 2017 is presented in the following table:

Amounts in €

01/01/2017-31/12/2017

Bank under Liquidation	Opening balance	Additions	Collections	Impairment charges	Closing balance
Achaiki Cooperative Bank	54,173,338	-	(4,000,000)	(12,692,846)	37,480,492
ATEbank	1,378,420,503	-	(86,500,000)	(76,448,043)	1,215,472,460
Dodecanese Cooperative Bank	61,387,860	-	(23,000,000)	-	38,387,860
Evia Cooperative Bank	17,713,615	-	(200,000)	-	17,513,615
First Business Bank	35,291,641	-	(5,000,000)	16,556,690	46,848,331
Hellenic Post Bank	232,898,692	-	(3,500,000)	-	229,398,692
Lamia Cooperative Bank	15,272,208	-	(2,500,000)	-	12,772,208
Lesvos-Limnos Cooperative Bank	4,851,956	-	(300,000)	-	4,551,956
Probank	37,464,491	-	(8,000,000)	-	29,464,491
Proton Bank	9,842,347	-	(3,472,051)	-	6,370,296
T-Bank	-	-	(1,341,200)	1,341,200	-
Western Macedonia Cooperative Bank	14,694,591	-	(2,000,000)	-	12,694,591
<b>Total</b>	<b>1,862,011,242</b>		<b>(139,813,251)</b>	<b>(71,242,999)</b>	<b>1,650,954,992</b>





The movement of the Fund's receivables, including impairment charges and collections, from the banks under liquidation during 2016 is presented in the following table:

Amounts in €					01/01/2016 -31/12/2016
Bank under Liquidation	Opening balance	Additions	Collections	Impairment charges	Closing balance
Achaiki Cooperative Bank	54,173,338	-	-	-	54,173,338
ATEbank	1,509,712,229	-	(30,000,000)	(101,291,726)	1,378,420,503
Dodecanese Cooperative Bank	61,387,860	-	-	-	61,387,860
Evia Cooperative Bank	17,713,614	-	-	-	17,713,614
First Business Bank	35,291,642	-	-	-	35,291,642
Hellenic Post Bank	291,919,823	-	-	(59,021,131)	232,898,691
Lamia Cooperative Bank	15,272,209	-	-	-	15,272,209
Lesvos-Limnos Cooperative Bank	4,851,955	-	-	-	4,851,955
Probank	37,464,491	-	-	-	37,464,491
Proton Bank	9,842,347	-	-	-	9,842,347
T-Bank	-	-	-	-	-
Western Macedonia Cooperative Bank	14,694,591	-	-	-	14,694,591
<b>Total</b>	<b>2,052,324,099</b>		<b>(30,000,000)</b>	<b>(160,312,857)</b>	<b>1,862,011,241</b>

## Note 10 | Derivative Financial Liabilities

Derivative financial liabilities line includes the warrants issued by the Fund and granted to the private investors participating in the capital increase of the 3 out of 4 systemic banks in 2013 according to Law 3864/2010 and Cabinet Act 38/2012.

The fair value of warrants per bank as of 31/12/2017 and 31/12/2016 is presented below:

Amounts in €	Fair value	
	31/12/2017	31/12/2016
Alpha Bank's warrants	-	2,283,468
NBG's warrants	-	1,720,220
Piraeus Bank's warrants	843,637	843,637
<b>Total</b>	<b>843,637</b>	<b>4,847,325</b>

### Fair value of warrants

Warrants are freely transferrable securities which are listed for trading in the securities market of ATHEX. The fair values are determined by reference to the prices in the ATHEX unadjusted and therefore they are classified into Level 1.

### Final exercise date and cancellation of warrants

In accordance with the provisions of Law 3864/2010 and Cabinet Act 38/2012, in combination with Cabinet Act 6/2013, the warrants which have not been exercised until the ninth and final exercise shall automatically expire and be cancelled by the HFSF. The date for the final exercise of Alpha Bank was the 11th December of



2017 in the context of which 6,608 warrants have been exercised and the outstanding warrants on that date automatically expired and were cancelled. The date for the final exercise of NBG Bank was the 27th December of 2017 in the context of which 2,538 warrants have been exercised and the outstanding warrants on that date automatically expired and were cancelled. The date for the final exercise of Piraeus Bank was the 2nd January of 2018 in the context of which 7,136 warrants have been exercised and the outstanding warrants on that date automatically expired and were cancelled.

### Movement of warrants

The number of warrants outstanding as of 31/12/2017 and 31/12/2016, the movement in 2017 and the number of shares corresponding to 1 warrant (multiplier), if exercised, are presented below:

	Alpha Bank	NBG	Piraeus Bank
Warrants outstanding as of 01/01/2017	1,141,734,167	245,745,661	843,637,022
Warrants exercised	(6,608)	(2,538)	-
Warrants expired and cancelled	(1,141,727,559)	(245,743,123)	-
<b>Warrants outstanding as of 31/12/2017</b>	-	-	<b>843,637,022</b>
Multiplier	-	-	0.002237886669784

## Note 11 | Other Liabilities

Amounts in €	31/12/2017	31/12/2016
Creditors and suppliers	179,580	584,409
Taxes payable	255,240	264,805
Contributions payable to social security funds	126,220	99,180
Accrued expenses	522,412	81,313
<b>Total</b>	<b>1,083,452</b>	<b>1,029,707</b>

The increase in the note line "accrued expenses" as compared to the balance as of 31.12.2016 is mainly due to accrued advisors' fees for services provided relating to Banks' divestments.



## Note 12 | Capital

Amounts in €	Capital
<b>Balance as of 21 July 2010</b>	-
<b>Capital increase - Cash</b>	<b>1,500,000,000</b>
<b>Balance as of 31 December 2011</b>	<b>1,500,000,000</b>
Capital increase - EFSF FRNs issued on 19/04/2012	25,000,000,000
Capital increase - EFSF FRNs issued on 19/12/2012	16,000,000,000
<b>Balance as of 31 December 2012</b>	<b>42,500,000,000</b>
Capital increase - EFSF FRNs issued on 31/05/2013	7,200,000,000
<b>Balance as of 31 December 2013</b>	<b>49,700,000,000</b>
<b>Balance as of 31 December 2014</b>	<b>49,700,000,000</b>
Capital decrease - EFSF FRNs returned on 27/02/2015	(10,932,903,000)
Capital increase - ESM FRNs granted on 01/12/2015	2,720,000,000
Capital increase - ESM FRNs granted on 08/12/2015	2,705,660,748
<b>Balance as of 31 December 2015</b>	<b>44,192,757,748</b>
<b>Balance as of 31 December 2016</b>	<b>44,192,757,748</b>
<b>Capital decrease - Cash returned on 20/02/2017</b>	<b>(2,029,200,000)</b>
<b>Balance as of 31 December 2017</b>	<b>42,163,557,748</b>

The HFSF, following the repayment of €2,029,200,000 of CoCos from NBG, transferred these funds to the Hellenic Republic on 20/02/2017 according to the procedure of art. 12, par. 6 of Law 3864/2010 and reduced its paid in capital by an equal amount.

## Note 13 | Interest Income

A breakdown of the Fund's interest income for the year ended 31/12/2017 and 31/12/2016 is provided in the table below:

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
Interest income from cash management account	35,218,317	16,151,469
<b>Total</b>	<b>35,218,317</b>	<b>16,151,469</b>

The interest income from cash management account derives from the return of amounts placed on repos, reverse repos, buy/sell back, sell/buy back with counterparty the Greek State in accordance with par. 11 (g) of the art. 15 of Law 2469/1997.



## Note 14 | Income from CoCos

The income from CoCos per bank for the year ended 31/12/2017 is provided in the table below:

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
Income from CoCos issued by NBG	-	167,747,065
Income from CoCos issued by Piraeus Bank	165,466,644	165,919,932
<b>Total</b>	<b>165,466,644</b>	<b>333,666,997</b>

The income from CoCos issued by Piraeus Bank comprises of the annual coupon.

## Note 15 | Personnel Expenses

The number of employees under payroll, including the members of the Executive Board, was 30 and 32 as of 31/12/2017 and 31/12/2016 respectively. The total personnel expenses for the year ended 31/12/2017 and 31/12/2016 are analysed as follows:

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
Salaries	(2,431,099)	(2,279,724)
Employer's contribution	(478,773)	(398,813)
<b>Total</b>	<b>(2,909,872)</b>	<b>(2,678,537)</b>

The average number of employees, including the members of the Executive Board, for the year ended 31/12/2017 and 31/12/2016 was 31 and 32 respectively.

## Note 16 | General Administrative and Other Operating Expenses

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
Utilities and rentals	(261,977)	(255,686)
General Council remuneration	(488,538)	(369,828)
Selection Panel remuneration	(154,280)	(170,170)
Lawyers' fees	(95,833)	(100,170)
Audit firms' fees	(41,453)	(46,636)
Advisors' fees	(2,918,997)	(4,043,200)
Professionals' fees	(88,706)	(111,396)
Custody fees	(51,559)	(43,264)
Insurance fees	(369,216)	(332,864)
Other fees	(112,558)	(142,061)
Other expenses	(245,215)	(266,323)
<b>Total</b>	<b>(4,828,332)</b>	<b>(5,881,598)</b>



## Note 17 | Gain/(Loss) from Financial Instruments at Fair Value through Profit or Loss

The figure includes the gains or losses resulting from the revaluation of the shares held in systemic banks and the warrants issued, the results from the disposals of the shares upon the exercise of the warrants and the revaluation of the CoCos issued by NBG and Piraeus Bank.

The breakdown of the gain or loss by financial instrument for the year ended on 31/12/2017 and 31/12/2016 is presented in the table below.

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
<b>Gain/(loss) from shares</b>		
Alpha Bank	(19,091,398)	(99,813,334)
Eurobank	10,676,538	(20,571,866)
NBG	262,435,289	(350,992,812)
Piraeus Bank	(128,066,711)	(159,218,073)
<b>Subtotal</b>	<b>125,953,718</b>	<b>(630,596,085)</b>
<b>Gain/(loss) from warrants</b>		
Alpha Bank	2,283,468	-
NBG	1,720,220	(491,491)
Piraeus Bank	-	-
<b>Subtotal</b>	<b>4,003,688</b>	<b>(491,491)</b>
<b>Gain/(loss) from CoCos</b>		
NBG	-	2,395,000
Piraeus Bank	(80,485,000)	(20,917,000)
<b>Subtotal</b>	<b>(80,485,000)</b>	<b>(18,522,000)</b>
<b>Total</b>	<b>49,472,406</b>	<b>(649,609,576)</b>

Following the sale of 1,391 shares of NBG and 979 shares of Alpha Bank in the context of warrants exercise, the Fund's realised gain in 2017 amounted to €109,045 and it is recognized in the gain/loss from shares of NBG and Alpha Bank in the above table.



## Note 18 | Commitments, Contingent Liabilities and Contingent Assets

Commitments: The Fund's commitments relate to the operational lease for its offices. The minimum future payments are presented in the table below (it is noted that the Fund may terminate the operating lease for its office following a three-month notice):

Amounts in €	31/12/2017	31/12/2016
No later than 1 year	176,918	81,236
Later than 1 year and no later than 5 years	245,142	-
<b>Total</b>	<b>422,060</b>	<b>81,236</b>

**Legal Proceedings:** No legal cases of third parties against the Fund exist at the issuance date of these financial statements that is probable to affect negatively the Fund's financial position.

**Undertakings deriving from FAFA:** Until the facility granted under the FAFA has been fully reimbursed, the Fund acts as a guarantor and has certain security related undertakings in the context of the facility agreement.

**Sale of ATE Insurance:** On 01/08/2016, the sale of 100% of ATE Insurance to ERGO International AG was completed by Piraeus Bank and the Bank received a consideration of €90.1m in cash subject to adjustments under the terms of the SPA. HFSF is of the opinion that it has a claim towards the Bank on the net proceeds of this transaction deriving from the contribution of the funding gap corresponding to ATE Insurance.

## Note 19 | Related Party Transactions

Related parties include the Fund's Management, close relatives to the Management, companies owned by the Management and credit institutions in which the Fund has substantial influence over the financial and operating policies.

The significant transactions entered into by the HFSF with related parties during the year ended on 31/12/2017 and 31/12/2016 and the balances outstanding as of 31/12/2017 and 31/12/2016 are presented below.

### Transactions with key management personnel

The members of the Executive Board and the General Council, as well as close relatives or companies controlled individually or jointly by them, did not enter into transactions with the Fund. The gross remuneration paid in 2017 amounted to €889.8k (2016: €686.8k). Furthermore, an amount of €106.8k (2016: €49.3k) had been paid for social security contributions.

### Transactions and balances with systemic banks

Following the contribution of EFSF FRNs to the systemic banks in the context of the pre-subscription agreements and subsequently due to the participation of the HFSF in the recapitalization of the banks in 2013 and 2015, the Fund considers the systemic banks to be related parties as defined in IAS 24.

The fair value of the shares held by the Fund as of 31/12/2017 amounted to €1,879.4m (31/12/2016: €1,753.6m) and the fair value of CoCos as of 31/12/2017 amounted to €1,933.3m (31/12/2016: €2,013.8m).

The custody fees, paid to the systemic banks, relating to shares held by HFSF, for the year ended on 31/12/2017 and 31/12/2016 amounted to €51.6k and €43.3k respectively.

### Transactions and balances relating to transitional credit institutions

In February of 2016, the Fund paid the amount of €1.99m regarding an obligation arising from the sale of New HPB to Eurobank that took place in 2013.



## Note 20 | Independent Auditor's Fees

KPMG Certified Auditors SA has served as the independent statutory auditor for the year ended 31/12/2017 and 31/12/2016 respectively. The following table presents the aggregate fees (excluding VAT) for professional audit and other services rendered to the Fund by the aforementioned audit firm.

Amounts in €	01/01/2017 - 31/12/2017	01/01/2016 - 31/12/2016
Audit and review fees for statutory audit of financial statements	30,000	37,000
<b>Total</b>	<b>30,000</b>	<b>37,000</b>

## Note 21 | Risk Management

The HFSF has organized its risk management function, in accordance with its statutory provisions and international best practices. Roles and responsibilities are clearly identified, whereas potential risks, to which the HFSF is exposed to in the course of fulfilling its mandate, are identified, assessed, monitored and effectively mitigated.

During 2017, the HFSF was exposed to the following risks:

**a. Investment Risk**

As a result of its participation in the Supported Credit Institutions ("SCIs"), the HFSF undertakes (directly) investment risk and it is exposed (indirectly) to all banking risks that an SCI assumes. As such, the value of the HFSF's investment is directly related to the risk-return profile assumed by the SCIs.

For the purposes of HFSF, investment risk is defined as the risk that:

- An adverse deviation from the approved SCI's business/restructuring plans occurs, and/or
- The HFSF's investments in SCIs do not yield the expected return.

It is acknowledged that an adverse deviation from an approved SCI restructuring plan may result from two main sources:

- **Factors internal to the SCI:** refers to business/restructuring plan potential deviations due to:
  - Failure of SCI's management to successfully implement internal strategies/measures to comply with the agreed restructuring plan, and/or
  - Failure of the SCI's risk management, corporate & risk governance and/or internal control framework;
  - Failure of SCI's management to successfully implement Non Performing Exposures (NPE) strategies and fulfil the agreed operational targets.
- **Factors external to the SCI:** refers to adverse business/restructuring plan or/and NPE strategies deviations due to adverse realisation of macroeconomic projections, changes in legal/judicial system and/or the occurrence of an unforeseeable event that significantly affects the SCI's valuation.

In particular, investment risk definition includes the following categories of investment risk sources:

- **Equity Price Risk:** refers to potential losses arising from adverse movements related to shares owned in systemic banks, warrants and Contingent Convertibles (CoCos) valuation. The HFSF's price risk is mainly attributable to the value of the Fund's equity participations in the four systemic banks.
  - The value of the Fund's equity participation in the four systemic banks.
  - The value of the warrants that the HFSF has issued with the HFSF's shares in the systemic banks as the underlying assets.
  - The potential conversion to equity, the HFSF is exposed to variations in the share prices of the issuing banks, as this would influence the value of their claim when conversion occurs. This equity risk from the potential conversion is reflected in the CoCos valuation.



- **Optionality Risk:** refers to potential losses from cancellation of CoCos interest payment. Such payments (either in whole or in part) are entirely at the issuer's discretion. Any such interest elected not to be paid shall be cancelled and shall not accumulate or be payable at any time thereafter. The risk of coupon cancellation is reflected in the value of CoCos. It also refers to potential losses in case of debt to equity (e.g. CoCos) conversion event is triggered.
- **Interest Rate Risk:** refers to potential losses from adverse movements in interest rates. The HFSF is exposed to interest rate risk in the following ways:
  - In case of no conversion, CoCos are similar to a fixed income instruments and their fair value is sensitive to interest rate movements.
  - Coupon income expected from CoCos.
  - Interest income expected from Cash Management Account (CMA) at the Bank of Greece (BoG).
  - Interest income expected from its deposits at interest bearing account held in BoG.

**b. Recovery Risk**

Recovery risk is defined as the risk of the Fund will not recover its claims against entities under liquidation. These claims arose due to the HFSF's payment, on behalf of the Hellenic Deposit Insurance Guarantee Fund (TEKE), of funding gaps created as a result of specific credit institutions' resolution process. The HFSF's payment of funding gaps is obligatory according to Laws 4051/2012 and 3601/2007. According to the HFSF Law, the monitoring and supervision of the actions and decisions of the bodies of the special liquidation of the credit institutions do not fall within the functions of the Fund. The decision making bodies of the Fund have no authority with respect to acts or omissions of the bodies accountable for the special liquidation proceedings of credit institutions. Consequently, the HFSF does not possess any kind of control or influence on the management of liquidation entities. Given the volatile nature of market conditions, as well as, the operational capacity of liquidation entities, the Fund acknowledges that there is a risk of not recovering any and all such claims in full.

**c. Liquidity Risk**

Liquidity risk is related to the Fund's potential inability to meet its liabilities when they come due, or to meet its commitments to make payments. The HFSF is monitoring its liquidity position on a regular basis. The Fund is not exposed to material liquidity risk.

**d. Operational Risk**

As a result of its operations in the course of achieving its objectives, the Fund is also exposed to operational and reputational risk:

Operational risk is defined as the risk of direct or indirect financial loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. In particular, this definition includes the following categories of operational risk sources:

- **Processes:** refers to losses or reputational damage incurred due to a deficiency in an existing process or procedure, or the absence of a process or procedure documentation. Losses or reputational damage in this category can result from human error, failure to follow an existing procedure or the absence of an adequate process. Process-related losses are unintentional.
- **People:** refers to losses or reputational damage associated with intentional violation of internal policies by current or former employees.
- **Systems:** reflects losses or reputational damage caused by breakdowns in existing systems or technology. Losses in this category are unintentional. If intentional technology-related losses occur, they would be categorized in either the People or External events category.
- **Models:** refers to potential errors of CoCos valuation model producing inaccurate outputs leading to wrong risk estimates and/or misstatements in the HFSF's Financial Statements.
- **External events:** reflects to losses occurring as a result of natural or man-made external forces, or the direct result of a third party's action.





At the HFSF, operational risk definition includes Legal & Compliance and IT risks, in line with best practices.

- **Legal and compliance risk** is the risk of loss or reputational damage arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, internal by-laws, or ethical standards.
- **IT risk** is the risk of loss arising from inadequate information technology and processing in terms of manageability, exclusivity, integrity, controllability and continuity, or arising from an inadequate IT strategy and policy or from inadequate use of the institution's information technology.

Lastly, within the Fund it is acknowledged that, **reputational risk** may also be present, defined as the risk arising from adverse perception of the image of the HFSF, whether true or not, on the part of the HFSF's stakeholders, contractual counterparties, the public or the regulatory authorities. At the HFSF, reputational risk could emerge from operational risk, investment risk and/or other external actions and events.



## Note 22 | Post Balance Sheet Events

Following the reporting date of the annual financial statements, the following events related to the HFSF took place:

### **Amendments to the HFSF Law**

On 14/06/2018, some articles of HFSF Law 3864/2010 were amended according to article 114 of L. 4559/2018. The main amendments were the extension of the Fund's mandate from June 2020 to end-2022 and the widening of its objectives through the ipso jure transfer of any future ordinary shareholdings of the state in banks to the Fund. Specifically, following potential conversions of deferred tax credits (DTCs) the HFSF will receive all ownership rights, including voting rights, to the bank shares that the Greek State would receive, while the economic benefit from the shares, including any proceeds from their sale, will be retransferred to the State, upon request.

Moreover, according to article 114 of Law 4549/2018, a new subparagraph in paragraph 2, article 2 of Law 3864/2010 (Objective of the Fund) has been inserted providing that the HFSF exercises the voting rights deriving from the participation of entities of the General Government in the share capital of credit institutions, which are assigned to it either by virtue of legislative or regulatory provisions, or by virtue of decisions of the competent each time collective administrative bodies of the said entities, according to this Law and special agreements entered into with the above entities for this purpose.

The unofficial codification of HFSF Law as well as the detailed recent amendments of L. 4559/2018 are presented in the Fund's website ([http://hfsf.gr/en/hfsf\\_law.htm](http://hfsf.gr/en/hfsf_law.htm)).

### **Amendment of L. 4549/2018**

According to article 114 of Law 4549/2018, a new paragraph in article 70 of Law 4387/2016 (Assets of EFKA) has been inserted providing that the voting rights deriving from the common shares of EFKA in credit institutions, are exercised by the HFSF, if the participation of EFKA in the share capital of the said credit institutions exceeds 33%, per credit institution, and only for the exceeding percentage. EFKA shall enter into special agreements with the HFSF, for the regulation of the specific details regarding their relationships.

### **Composition of the General Council and Executive Board**

On 09/01/2018 Mr. Ilias Xirouhakis was nominated by the BoG as executive member of the Executive Board, replacing Mr. Panagiotis Doumanoglou who submitted his resignation effective as of 01/10/2017.

On 26/01/2018, Mr. Paul Arlman was appointed by the Minister of Finance as non-executive member of the General Council, replacing Mrs. Dagmar Isabel Valcárcell Schnull who resigned on 01/09/2017.

On 15/06/2018, Mr. Andreas Verykios was appointed by the Minister of Finance as non-executive chairman of the General Council, replacing Mr. George Michelis who resigned on 14/06/2018.

### **Final exercise date and cancellation of warrants**

In accordance with the provisions of Law 3864/2010 and Cabinet Act 38/2012, in combination with Cabinet Act 6/2013, the warrants which have not been exercised until the ninth and final exercise shall automatically expire and be cancelled by the HFSF. The date for the final exercise of Piraeus Bank was the 2nd January of 2018 in the context of which 7,136 warrants were exercised and 15 shares exchanged, resulting to the Fund receiving €64,260. The 843,629,886 outstanding warrants on that date were automatically expired and were cancelled.



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