

**Company Registration Number: 06720661**

**KATANALOTIKA PLC**  
**ANNUAL REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**



# **KATANALOTIKA PLC**

## **ANNUAL REPORT AND FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

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# **KATANALOTIKA PLC**

## **CORPORATE INFORMATION**

### **Directors**

Mrs M Clarke-Whelan  
Mr D J Wynne  
Wilmington Trust SP Services (London) Limited

### **Company secretary**

Wilmington Trust SP Services (London) Limited

### **Company number**

06720661

### **Registered office**

c/o Wilmington Trust SP Services (London) Limited  
Third Floor  
1 King's Arms Yard  
London  
EC2R 7AF

### **Statutory Auditor**

Deloitte LLP  
London  
United Kingdom

### **Servicer**

Alpha Bank AE  
40 Stadiou  
102 52 Athens  
Greece

# **KATANALOTIKA PLC**

## **STRATEGIC REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their annual strategic report of Katanalotika Plc (the “Company”) for the year ended 31 December 2017.

#### **GENERAL**

##### **PRINCIPAL ACTIVITIES**

The Company was incorporated as a public limited company on 10 October 2008. The principal activities of the Company are those of a special purpose vehicle, set up to acquire a portfolio of loans (personal consumer and auto loans), and to finance such activities by issuing securities, raising or borrowing money and lending money with or without security subject to and in accordance with the terms of the relevant transaction documents. In accordance with its Offering Circular dated 9 December 2008, on 9 December 2008 the Company issued €1,520,000,000 of floating rate loan notes (‘Loan Notes’ or ‘Notes’) in order to purchase a portfolio of loans (Greek personal consumer and auto loans) from Alpha Bank AE (the “Originator”). As at the year end €1,520,000,000 of principal loan notes are outstanding (2016: €1,520,000). The floating rate loan notes are due to mature on 17 December 2029 and are listed on the main market of the Irish Stock Exchange.

The sale of the portfolio of loans to the Company is considered to fail the derecognition criteria of IAS 39, Financial Instruments: recognition and measurement (‘IAS 39’), in the books of Alpha Bank AE and therefore they are retained on the Statement of Financial Position of the Originator. As such, the Company does not recognise the portfolio of loans as Loans and Advances on its Statement of Financial Position, but rather a Deemed Loan to the Originator.

As disclosed in Note 18 to the financial statements Alpha Bank A.E is also the ultimate controlling party of the Company.

##### **REVIEW OF THE BUSINESS**

##### **RESTATEMENT**

The Company has restated the prior year’s financial statements in respect of the recognition of deferred consideration. Further information on this restatement is set out in Note 2.

##### **KEY PERFORMANCE INDICATORS AND RESULTS**

The Company’s financial position at the year-end are shown in the attached financial statements. The loss after taxation for the year was €27,431,105 (Restated 2016: loss after taxation of €16,969,308). As at the year end the carrying value of the Deemed Loan to Originator was €1,086,662,626 (Restated 31 December 2016: €921,803,398). Loan notes and borrowings at the year-end amounted to €1,519,480,888 (31 December 2016: €1,519,433,652). As of 2017, cash and cash equivalents, including reserve funds, were €363,000,765 (2016: €595,232,232). The key performance indicators of the Company are net interest income and impairment losses. During 2017 net interest income was €93,023,228 (2016: €88,467,578) and the impairment charge was €29,311,493 (2016: €16,566,317).

##### **FUTURE DEVELOPMENTS**

The directors expect that the present level of activity will be sustained in the foreseeable future. The activities of the Company are limited to those of the holding and management of the portfolio of loans acquired from Alpha Bank AE.

##### **PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT**

The Company is exposed to a range of business risks and a detailed consideration of the risk factors relevant to the Securitisation Transaction is included in the section “Risk Factors” of the Offering Circular and summarised below. Further information on the Company’s financial risk management are set out in note 16 to the financial statements.

# **KATANALOTIKA PLC**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **Market Risk**

Market risk exists where changes in the economic environment in which the Company operates may negatively impact the Company's performance. The Company is exposed to a range of market risks which includes market liquidity constraints, limited availability of credit and difficult trading conditions.

These continue to pose significant challenges to the underlying borrowers with whom the Company has exposure through the Deemed Loan to the Originator. Conditions may deteriorate further due to the continued financial and economic uncertainty in Greece. However, based on the terms of transaction documents, the risk for the Company in being able to pay off its obligations is limited to the receipt of funds on the loan portfolio from the Originator.

#### **Operational Risk**

The principal operational risk to the Company is its ability to meet its obligations to pay principal and interest on the Loan notes and its operating and administrative expenses). The Company's cash flows are derived from the Deemed Loan to the originator which in turn is derived from the underlying loan portfolio.

If there are insufficient funds available as a result of any defaults on the loan portfolio, then the Company may not be able, after making the payments to be made in priority thereto, to pay, in full or at all, amounts of interest and principal due to the holders of, firstly, the Class Z Notes and secondly, the Class A Notes. In this situation, there may not be sufficient funds to redeem each class of Notes on or prior to the Final Maturity Date on 17 December 2029.

In addition, over reliance on the servicer and underperformance of the servicer could materially impact cash flows, income and profitability and therefore adversely impact the Company's result.

#### **Compliance Risk**

Compliance risk exists where failure to comply with applicable legislation and regulatory requirements within the geographies and markets in which the Company operates and any potential breaches may result in reputational damage and fines which may impact the Company's ability to remain competitive in the market.

The Company has appointed a servicer and a corporate service provider in order to keep up to date with any changes to any regulatory environment which could adversely impact the Company.

#### **Interest Rate Risk**

The Company receives interest predominantly at floating rates on the loans underlying the Deemed Loan to the Originator with some fixed rate loans. Interest on the Company's funding is paid at floating rates.

The directors consider that the margin between the effective interest received from the portfolio of loans and the interest paid on loan notes is considered sufficient to hedge any interest rate exposure.

#### **Credit Risk**

The Company is exposed to credit risk, in relation to defaults from repayments of the portfolio of loans underpinning the Deemed Loan to the Originator. At the time of acquisition, the portfolio of loans was carefully selected to meet certain criteria, as set out in the Offering Circular issued in connection with the issue of the floating rate loan notes. These criteria and the day to day management of the portfolio of loans are undertaken by Alpha Bank AE which actively manages the collection of the outstanding amounts.

As mentioned in note 1, the issues prevalent in Greece could affect the ability of the borrowers to repay the loans. However, credit risk is ultimately borne by the Originator since all of the loan notes are held by the Originator and the transaction is structured as limited recourse, such that the ability of the Company to meet its obligations under the loan notes will directly depend upon receipt of funds from the Originator, which in turn is dependent on the ability of underlying borrowers to service their loans.

# **KATANALOTIKA PLC**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **Credit Risk (continued)**

The loan portfolio will be managed with the objective of satisfying the Collateral Test. In order to satisfy the Collateral Test, the weighted average interest rate of the Loans included in the Portfolio is not less than the sum of (i) 3-month EURIBOR as at the immediately preceding Interest Payment Date, and (ii) 4 per cent.

In order to ensure the collateral test is maintained, Alpha Bank AE has repurchased loans from the Company of €307,553,665 during the year (2016: €100,881,458).

#### **Liquidity Risk**

Notwithstanding the factors noted above in relation to the risks associated with collecting amounts due from the Deemed Loan to the Originator, liquidity risk is not regarded as significant, given that the Company is only obliged to make payments to the loan note holders from amounts collected from the loan portfolio.

#### **Foreign Currency Risk**

The Company's assets and liabilities are denominated in Euros and are not exposed to any material currency fluctuations to any material transactions that are denominated in currencies other than Euros. Accordingly, the currency risk for the Company as a whole is considered to be low.

#### **BREXIT Risk**

On 23 June 2016, the UK voted to leave the EU. Subsequently, the triggering of Article 50 of European Union's Lisbon Treaty took place on 29 March 2017. At the date of signing these financial statements the Directors do not foresee any immediate risks crystallising, however, they acknowledge the uncertainty that continues to exist. The directors will continue to keep this under review.

#### **GOING CONCERN**

The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Strategic Report. In addition, note 16 to the financial statements includes the Company's financial risk management objectives and its exposures to market risk, credit risk and liquidity risk. As at year end carrying value of the Deemed Loan to Originator was €1,086,662,626 (Restated 2016: €921,803,398). Loan notes and borrowings held at the year end amounted to €1,519,480,888 (2016: €1,519,433,652). As of 31 December 2017, cash and cash equivalents, including reserve funds, were €363,000,765 (2016: €595,232,232). The Company made a loss in the current year and at year end the Company was in a negative equity position amounting to €153,020,841 (31 December 2016: (€125,589,736)).

The directors have undertaken a detailed assessment of the Company's on going business model, in view of the importance of the recovery of the deemed loan to the Originator ('Alpha Bank A.E'. or 'the Group') in being able to repay its liabilities on the loan notes. Under the terms of the loan notes issued by the Company and associated arrangements, amounts due are only payable and limited to the extent that there are sufficient receipts from the Deemed Loan to the Originator.

Under the terms of the Offering Circular, the Class A and Class Z loan notes are limited-recourse debt obligations of the Company. The ability of the Company to meet its obligations under the loan notes will be directly dependent primarily upon the receipt by it of principal and interest from the borrowers underpinning the

# **KATANALOTIKA PLC**

## **STRATEGIC REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

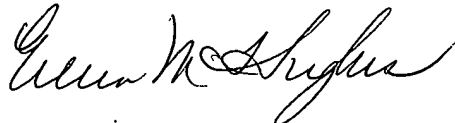
#### **GOING CONCERN (CONTINUED)**

Deemed Loan to Originator. Other than any interest earned by the Company in respect of the Company's bank accounts, the Company is not expected to have any other funds available to meet its obligations under the loan notes and/or any other payment obligation ranking in priority to, or pari passu with, the loan notes. Upon enforcement of the security for the loan notes, the trustee or any receiver and the Noteholders will have recourse only to the Deemed Loan to Originator, the Company's interest in the relevant ancillary rights and to any other assets of the Company then in existence as described in the Offering Circular.

The Originator has been affected by the high degree of uncertainty that characterises the Greek economic environment in recent years, as a result of the prolonged recession of the Greek economy, which led to a significant deterioration in the creditworthiness of corporate and individuals and therefore to the recognition of significant impairment losses by the Originator and by the Greek banking system in general. In August 2018 The Hellenic Republic officially exited the international bail-out programme and this is expected to contribute to the decrease of uncertainty and to the enhancement of business community and investors' confidence in Greece.

The Company's losses have resulted from the recognition of significant impairment losses on the underlying loan portfolio acquired by the Originator, as described above. However these could be gradually reversed in the future if conditions in the Greek economy improve. Also, collections from the loan portfolio in the past have always been sufficient to cover the Company's liabilities and return excess amounts to the Originator. The Company's notes are not due to be repaid until 2029 and an early repayment is not expected within the next twelve months. Even in the case that the Originator exercised his option to early terminate the transaction through the repurchase of the loans, according to the terms of the Offering Circular, the loan portfolio would be repurchased at gross amounts and sufficient recourses would be available to the Company to repay the notes outstanding. Taking into account the above, the directors have assessed that it is appropriate to prepare the financial statements on a going concern basis.

Approved by the Board of Directors and authorised for issue on its behalf by:



**Eileen Hughes for and on behalf of Wilmington Trust SP Services (London) Limited**  
**Director**  
31 August 2018

# **KATANALOTIKA PLC**

## **DIRECTORS' REPORT**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

The directors present their annual report and the audited financial statements of Katanalotika PLC (the "Company") for the year ended 31 December 2017 with comparatives for the year ended 31 December 2016.

#### **THE DIRECTORS**

The directors who served the Company during the year and up to the date, of signing the financial statements, except as a noted, are as follows:

Mr M H Filer (Resigned 11 April 2017)  
Mrs M Clarke-Whelan  
Mr D J Wynne (Appointed on 27 March 2017)  
Wilmington Trust SP Services (London) Limited

#### **DIVIDENDS**

The directors have not recommended a dividend (2016: €nil).

#### **DONATIONS**

The Company made no political or charitable donations during the year under review (2016: €nil).

#### **THIRD PARTY INDEMNITIES**

Qualifying third party indemnity provisions for the benefit of the directors were in force during the year under review and remain in force as at the date of approval of the Strategic Report, Directors' Report and financial statements.

#### **CORPORATE GOVERNANCE**

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

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

Due to the nature of the securities which have been issued on the Irish Stock Exchange, the directors are satisfied that there is no requirement to publish a corporate governance statement and that the Company is largely exempt from the disclosure requirements of the provisions of the UK Corporate Governance Code.

#### **CAPITAL STRUCTURE**

Details of the issued share capital, together with details of holders of shares are shown in Note 13 and Note 18 to the financial statements. There are 50,000 authorised ordinary shares of £1 each. The issued share capital consists of 2 fully paid ordinary shares and 49,998 quarter paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.



# **KATANALOTIKA PLC**

## **DIRECTORS' REPORT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **RISK MANAGEMENT**

The directors have carried out an assessment of the principal risks facing the Company and appropriate processes are put in place to monitor and mitigate them.

The key business risks affecting the Company and its management are discussed in the strategic report and further information on the Company's financial risk management is set out in note 16, "Financial Risk Management" to the financial statements.

#### **FUTURE DEVELOPMENTS**

Future Developments are discussed in detail in the strategic report.

#### **POST BALANCE SHEET EVENTS**

There were no other significant post balance sheet events except as disclosed in note 19

#### **STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

Each of the persons who is a director at the date of approval of this annual report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

#### **APPOINTMENT OF AUDITORS**

In accordance to section 487 of the Companies Act 2006, a resolution was proposed and approved at a board meeting on 22 November 2017 for the appointment of Deloitte LLP as auditor of the Company.

Approved by the Board of Directors and authorised for issue on its behalf by:



**Eileen Hughes for and on behalf of Wilmington Trust SP Services (London) Limited**  
**Director 31 August 2018**

# **KATANALOTIKA PLC**

## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union. Under Company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC

## Report on the audit of the financial statements

### Opinion

In our opinion the financial statements of Katanalotika plc (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows; and
- the related notes 1 to 19.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the company.

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

### Summary of our audit approach

<b>Key audit matters</b>	The key audit matters that we identified in the current year were: <ul style="list-style-type: none"><li>• Loan loss provisioning; and</li><li>• Revenue recognition.</li></ul>
<b>Materiality</b>	The materiality that we used in the current year was €12,000,000 which was determined on the basis of 1% of the forecasted Deemed Loan to the Originator balance (the 'Deemed Loan'). This represented 1.10% of the Deemed loan balance as at 31 December 2017.
<b>Scoping</b>	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team and for certain audit procedures, by Deloitte Certified Public Accountants S.A. in Greece ('Deloitte Greece'), under the direction and supervision of the UK audit engagement team.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC (CONTINUED)

## Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**We have nothing to report in respect of these matters.**

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Loan loss provisioning

#### Key audit matter description








As disclosed in Note 10, the company's Deemed Loan to Originator balance of €1,086,662,626 is underpinned by a portfolio of personal consumer and auto loans ('the loan portfolio') originated by Alpha Bank A.E. ('the Originator').

The Deemed Loan to the Originator is measured at amortised cost which is established by reference to the loan portfolio. IAS 39 Financial Instruments ('IAS 39') requires an assessment, at the end of each reporting period, as to whether there is any objective evidence that a financial asset or group of financial assets is impaired.

The impairment identification on the loan portfolio is derived from a collective model that incorporates subjective judgements around probability of default, expected recovery rates and forbearance assessment on each borrower.

Given the significant amount of management judgement involved in the assumptions used in the impairment assessment, we identified it as a potential area susceptible to fraud.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC (CONTINUED)

<p>How the scope of our audit responded to the key audit matter</p> 	<p>We evaluated the appropriateness of the methodologies and policies chosen by management in relation to the identification of a loss event.</p> <p>We performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of management's impairment assessment process and assessed the design and implementation of relevant key controls;</li> <li>• Evaluated management's methodology and the reasonableness of judgements in performing their impairment assessment;</li> <li>• Reviewed the payment history of a sample of the borrowers of the loan portfolio during the year and post year-end to identify potential impairment triggers; and</li> <li>• Reviewed the collective impairment models used by Alpha Bank A.E. on retail portfolios to assess whether these models are in line with IAS 39 requirements.</li> </ul>
<p>Key observations</p> 	<p>Based on the evidence obtained, we found that the assumptions underpinning the impairment model for the underlying loan portfolio were determined and applied appropriately.</p>
<p><b>Revenue recognition</b></p>	
<p>Key audit matter description</p> 	<p>Revenue recognised in the Company of €97,906,133 arises primarily from interest on the Deemed Loan to the Originator. For interest income the key judgement is the application of the Effective Interest Rate ('EIR') method.</p> <p>Management's assessment of EIR is based on the assumption that there are no transaction cost and therefore that the applicable floating interest rate equals the effective interest rate at each reporting period.</p> <p>Given the judgment involved in the assumptions used, we identified revenue recognition as a potential area susceptible to fraud.</p> <p>Management have described the recognition basis for revenue in Note 1 to the financial statements.</p>
<p>How the scope of our audit responded to the key audit matter</p> 	<p>We performed, among others, the following procedures:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of management's revenue recognition process and assessed the design and implementation of relevant key controls;</li> <li>• Assessed management's calculation of the EIR and compared this to the contractual terms governing the underlying loan portfolio;</li> <li>• Reviewed a sample of loan agreements from the loan portfolio and examined the interest terms</li> <li>• Recalculated the interest income using the applicable interest rate; and</li> <li>• Traced interest income receipts to bank statements.</li> </ul>
<p>Key observations</p> 	<p>From the work performed, we concur with management's approach to the recognition of interest income as at 31 December 2017.</p>

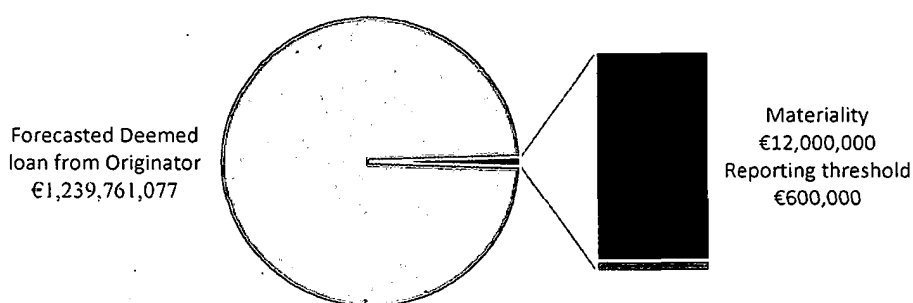
# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC (CONTINUED)

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Materiality</b>	€12,000,000
<b>Basis for determining materiality</b>	1% of the forecasted Deemed Loan to Originator balance. This represented 1.10% of the Deemed loan balance as at 31 December 2017.
<b>Rationale for the benchmark applied</b>	The sole purpose of the company is to acquire and hold loan portfolios, which are financed by the issue of loan notes. The Deemed Loan is the key driver of the company's results and is therefore the key focus of the users of the financial statements.



We agreed with the those charged with governance that we would report to them all audit differences in excess of €600,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to those charged with governance on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the entity and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed by the audit engagement team with the involvement of Deloitte Greece.

The underlying assets relating to the deemed loan are recognised on the balance sheet of Alpha Bank A.E in Greece. These assets are serviced in Greece. As such we instructed Deloitte Greece to perform certain procedures on our behalf. These procedures involved the design and implementation of the control environment and testing of the key audit matters set out in the 'Key audit matters' section of this auditor's report.

We were involved in setting the direction of their audit work, and we considered their reporting to us including review of their working papers. We frequently communicated with them throughout the audit to monitor their progress and deal with any matters arising.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC (CONTINUED)

## Other information

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The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

*We have nothing to report in respect of these matters.*

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

## Responsibilities of directors

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As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC (CONTINUED)

### Extent to which the audit was considered capable of detecting irregularities, including fraud

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We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

#### *Identifying and assessing potential risks related to irregularities*

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management and those charged with governance, including obtaining and reviewing supporting documentation, concerning the company's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud such as significant management judgments arising from loan loss provision and revenue recognition; and
- obtaining an understanding of the legal and regulatory framework that the company operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the company. The key laws and regulations we considered in this context included the UK Companies Act, Irish Stock Exchange Listing Rules and UK tax securitisation regime.

#### *Audit response to risks identified*

As a result of performing the above, we identified loan loss provisioning and revenue recognition as key audit matters. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, those charged with governance and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC/Irish Stock Exchange; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and Deloitte Greece, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.



# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KATANALOTIKA PLC (CONTINUED)

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

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In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### Matters on which we are required to report by exception

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#### *Adequacy of explanations received and accounting records*

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

*We have nothing to report in respect of these matters.*

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

#### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

*We have nothing to report in respect of this matter.*

### Other matters

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#### *Auditor tenure*

Following the recommendation of the Alpha Bank A.E audit committee, we were appointed by the Board of directors on 22 November 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. This is the first period of the total uninterrupted engagement.

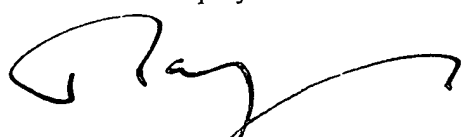
#### *Consistency of the audit report with the additional report to the those charged with governance*

Our audit opinion is consistent with the additional report to Those Charged with Governance are required to provide in accordance with ISAs (UK).

### Use of our report

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



Mark Rhys, FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
31 August 2018

**KATANALOTIKA PLC****STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	2017 €	2016 Restated €
Interest income	6	97,906,133	94,722,283
Interest expense	7	<u>(4,882,905)</u>	<u>(6,254,705)</u>
<b>Net interest income</b>		93,023,228	88,467,578
Deferred consideration		(90,826,207)	(88,545,615)
Impairment	10	(29,311,493)	(16,566,317)
Administrative expenses	8	<u>(315,630)</u>	<u>(324,030)</u>
<b>Loss before tax for the year</b>		(27,430,102)	(16,968,384)
Tax charge	9	<u>(1,003)</u>	<u>(924)</u>
<b>Comprehensive loss for the year</b>		<u><u>(27,431,105)</u></u>	<u><u>(16,969,308)</u></u>

All the Company's income and expenses arise from continuing operations.

The notes on pages 20 to 35 form part of these financial statements.

# KATANALOTIKA PLC

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

		31 December 2017	31 December 2016 Restated	01 January 2016 Restated
	Note	€	€	€
<b>Assets</b>				
Cash and cash equivalents	12	363,000,765	595,232,232	386,130,192
Deemed loan to the originator	10	1,086,662,626	921,803,398	946,038,072
Other assets	11	<u>3,921</u>	<u>3,921</u>	<u>79,000,774</u>
<b>Total assets</b>		<u>1,449,667,312</u>	<u>1,517,039,551</u>	<u>1,411,169,038</u>
<b>Equity</b>				
Issued capital	13	16,393	16,393	16,393
Retained earnings/(loss)	13	<u>(153,037,234)</u>	<u>(125,606,129)</u>	<u>(108,636,821)</u>
<b>Total shareholder's deficit</b>		<u>(153,020,841)</u>	<u>(125,589,736)</u>	<u>(108,620,428)</u>
<b>Liabilities</b>				
Other liabilities	15	83,206,262	123,194,537	400,687
Tax payable		1,003	1,098	2,363
Loan notes and borrowings	14	<u>1,519,480,888</u>	<u>1,519,433,652</u>	<u>1,519,386,416</u>
<b>Total liabilities</b>		<u>1,602,688,153</u>	<u>1,642,629,287</u>	<u>1,519,789,466</u>
<b>Total shareholder's deficit and liabilities</b>		<u>1,449,667,312</u>	<u>1,517,039,551</u>	<u>1,411,169,038</u>

The notes on pages 20 to 35 form part of these financial statements.

These financial statements for Katanalotika Plc, Company registration 06720661 were approved and authorised for issue by the directors 31 August 2018 and are signed on their behalf by:



**Eileen Hughes for and on behalf of Wilmington Trust SP Services (London) Limited**  
Director

# KATANALOTIKA PLC

## STATEMENT OF CHANGES IN EQUITY

### FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Share capital	Retained earnings/ (loss)	Total shareholder's deficit
		€	€	€
Balance attributable to equity holders previously presented as at 01 January 2016		16,393	52,444	68,837
Impact of deferred consideration adjustment	2	-	(108,689,265)	(108,689,265)
Balance attributable to equity holders As at 01 January 2016 (restated)		<u>16,393</u>	<u>(108,636,821)</u>	<u>(108,620,428)</u>
Loss for the year		-	(16,969,308)	(16,969,308)
Balance attributable to equity holders as at 31 December 2016 (restated)		16,393	(125,606,129)	(125,589,736)
Loss for the year		-	(27,431,105)	(27,431,105)
Balance attributable to equity holders as at 31 December 2017		<u>16,393</u>	<u>(153,037,234)</u>	<u>(153,020,841)</u>

The notes on pages 20 to 35 form part of these financial statements.

# KATANALOTIKA PLC

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	31 December 2017	Restated 31 December 2016
<b>Cash flows from operating activities</b>		€	€
Loss before tax for the year		(27,430,102)	(16,968,384)
Adjustments for:			
Interest income	6	(97,906,133)	(94,722,283)
Interest expense	7	4,882,905	6,254,705
Increase in impairment	10	<u>29,311,493</u>	<u>16,566,317</u>
Operating cash flows before movements in working capital		(91,141,837)	(88,869,645)
Decrease in other assets	11	-	78,996,853
(Decrease)/Increase in other liabilities	15	(39,994,271)	122,937,744
Interest income received		96,853,960	47,774,089
Portfolio of loans acquired	10	(388,235,205)	(153,922,224)
Repayments from borrowers	10	<u>195,116,658</u>	<u>208,538,775</u>
Net cash(used in)/from operating activities before tax		(227,400,695)	215,455,592
Tax paid		(1,099)	(2,189)
<b>Net cash from operating activities</b>		<u>(227,401,794)</u>	<u>215,453,403</u>
Interest paid		<u>(4,829,673)</u>	<u>(6,351,363)</u>
<b>Net cash used in financing activities</b>		<u>(4,829,673)</u>	<u>(6,351,363)</u>
<b>Net(decrease)/ increase in cash and cash equivalents</b>		(232,231,467)	209,102,040
Cash and cash equivalents at the start of the year		<u>595,232,232</u>	<u>386,130,192</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>363,000,765</u>	<u>595,232,232</u>

All withdrawals from the Company's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely available to be used for other purposes.

The notes on pages 20 to 35 form part of these financial statements.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. PRINCIPAL ACCOUNTING POLICIES

Katanalotika Plc is a public limited company incorporated and domiciled in England and Wales with the registered number 06720661.

##### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union.

##### Basis of preparation

The financial statements have been prepared on the historical cost basis, except certain financial instruments in accordance with IAS 39.

The Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning 1 January 2017.

The Company mainly transacts in Euros ("€"), therefore, the Euro is its functional and presentational currency.

The Company has made estimates and judgements in relation to the valuation of the deemed loan from the originator and the loan notes (refer to note 16).

##### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position and its principal uncertainties are set out in the Strategic Report. In addition, note 16 to the financial statements includes the Company's financial risk management objectives and its exposures to market risk, credit risk and liquidity risk. As at year end carrying value of the Deemed Loan to Originator was €1,086,662,626 (Restated 2016: €921,803,398). Loan notes and borrowings held at the year end amounted to €1,519,480,888 (2016: €1,519,433,652). As of 31 December 2017, cash and cash equivalents, including reserve funds, were €363,000,765 (2016: €595,232,232). The Company made a loss in the current year and at year end the Company was in a negative equity position amounting to €153,020,841 (31 December 2016: €125,589,736)).

The directors have undertaken a detailed assessment of the Company's on going business model, in view of the importance of the recovery of the deemed loan to the Originator ('Alpha Bank A.E'. or 'the Group') in being able to repay its liabilities on the loan notes. Under the terms of the loan notes issued by the Company and associated arrangements, amounts due are only payable and limited to the extent that there are sufficient receipts from the Deemed Loan to the Originator.

Under the terms of the Offering Circular, the Class A and Class Z loan notes are limited-recourse debt obligations of the Company. The ability of the Company to meet its obligations under the loan notes will be directly dependent primarily upon the receipt by it of principal and interest from the borrowers underpinning the Deemed Loan to Originator. Other than any interest earned by the Company in respect of the Company's bank accounts, the Company is not expected to have any other funds available to it to meet its obligations under the loan notes and/or any other payment obligation ranking in priority to, or pari passu with, the loan notes. Upon enforcement of the security for the loan notes, the trustee or any receiver and the Noteholders will have recourse only to the Deemed Loan to Originator, the Company's interest in the relevant ancillary rights and to any other assets of the Company then in existence as described in the Offering Circular.

# **KATANALOTIKA PLC**

## **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

##### **Going concern (continued)**

The Originator has been affected by the high degree of uncertainty that characterises the Greek economic environment in recent years, as a result of the prolonged recession of the Greek economy, which led to a significant deterioration in the creditworthiness of corporate and individuals and therefore to the recognition of significant impairment losses by the Originator and by the Greek banking system in general. In August 2018 The Hellenic Republic officially exited the international bail-out programme and this is expected to contribute to the decrease of uncertainty and to the enhancement of business community and investors' confidence in Greece.

The Company's losses have resulted from the recognition of significant impairment losses on the underlying loan portfolio acquired by the Originator, as described above. However these could be gradually reversed in the future if conditions in the Greek economy improve. Also, collections from the loan portfolio in the past have always been sufficient to cover the Company's liabilities and return excess amounts to the Originator. The Company's notes are not due to be repaid until 2029 and an early repayment is not expected within the next twelve months. Even in the case that the Originator exercised his option to early terminate the transaction through the repurchase of the loans, according to the terms of the Offering Circular, the loan portfolio would be repurchased at gross amounts and sufficient recourses would be available to the Company to repay the notes outstanding. Taking into account the above, the directors have assessed that it is appropriate to prepare the financial statements on a going concern basis.

##### **Financial Instruments**

The Company recognises a financial asset or a financial liability at the time it becomes a party to a contract because that is the point at which it has contractual rights or obligations. Financial assets are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method. Financial liabilities are initially recognised at fair value net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest method.

##### **Deemed Loan to the Originator**

Under IAS 39 Financial Instruments: recognition and measurement, if a transferor retains substantially all the risks and rewards associated with the transferred assets, the transaction is accounted for as a financing transaction, notwithstanding that it is a sale transaction from a legal perspective. The Directors have concluded that the Originator has retained substantially all the risks and rewards of the securitised loan portfolio and as a consequence, the Company does not recognise the portfolio of loans as Loans and Advances on its Statement of Financial Position, but rather a Deemed Loan to the Originator.

The Deemed Loan to the Originator is initially recognised at fair value and subsequently carried at amortised cost. The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition, minus principal repayments using the effective interest rate method of any difference between the initial amount recognised and the maturity amount, less any reduction for impairment.

##### **Deferred consideration payable to the Originator**

Under the terms of the securitisation, the Company retains the right of 0.01% available revenue receipts from the beneficial interest in the portfolio of loans. Income in excess of 0.01% is payable to Alpha Bank AE and treated as a component of the Deemed Loan to Originator. The payments of deferred consideration are strictly governed by the priority of payments that sets out how cash can be utilised.

##### **Loan notes and borrowings**

Loans Notes and Borrowings comprise of loan notes issued by the Company through its Offering Circular dated 9 December 2008. Loan notes are initially recognised at fair value net of transaction costs incurred and are subsequently stated at amortised cost using the effective interest method.

##### **Cash and cash equivalents**

For the purposes of the Statement of Cash flows, cash and cash equivalents comprise balances with less than 3 months to maturity. All withdrawals from the Company's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements and as such the cash and cash equivalents are not freely

available to be used for other purposes.

## **KATANALOTIKA PLC**

### **NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

#### **FOR THE YEAR ENDED 31 DECEMBER 2017**

##### **1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)**

###### **Interest income and interest expense**

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses that the Company may be exposed to. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, deferred consideration payable to the Originator, transaction costs and all other premiums or discounts.

###### **Impairment losses on financial assets and liabilities**

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses recognised in profit or loss, and reflected in an allowance account against the portfolio of loans underpinning the Deemed Loan to the Originator. Interest on impaired assets continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit or loss.

###### **Derecognition of Financial Instruments**

The Company derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of:

- (i) the consideration received (including any new asset obtained less any new liability assumed); and
- (ii) any cumulative gain or loss that had been recognised in other comprehensive income.

is recognised in the Statement of profit & loss and other comprehensive income. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Company is recognised as a separate asset or liability.

Financial liabilities are derecognised when the Company obligation is discharged, cancelled or expires. A financial liability (or part of it) is extinguished when the Company either:

- discharges the liability (or part of it) by paying the creditor; or
- is legally released from primary responsibility for the liability either by process of law or the creditor

###### **Taxation**

The Company has elected to be taxed under the "permanent" tax regime for securitisation companies (contained in Statutory Instrument 2006/3296), under which the Company is taxed broadly by reference to its net cash flows during the year, and not by reference to its accounting profits, to the extent that these differ.

###### **Comparative Financial Information**

Any changes in the presentation of items in the financial statements have been reflected in the comparative amounts.

###### **Expenditure**

Expenses are included in the statement of profit & loss on an accrual basis.



# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

##### Share Capital

Share capital is issued in Sterling and has been classified as equity.

#### 2. RESTATEMENT AND COMPARATIVE FIGURES

The Company has restated the prior year's financial statements to amend the recognition of deferred consideration.

Most significantly, the Company restated its deemed loan to the Originator in respect of the recognition of deferred consideration. Previously losses on the deemed loan were offset against any deferred consideration payable to the Originator. Once the deferred consideration payable has absorbed the incurred credit losses on the deemed loan, any further losses should be a loss to the Company. The Company had recognised receivable from the Originator in form of deferred consideration to meet the Company's retained profit under the terms of securitisation, however this does not represent an asset receivable by the Company and accordingly an adjustment has been made to the deemed loan balance.

As a result, certain line items have been amended in the statement of financial position, statement of comprehensive income, statement of changes in equity and statements of cash flow, and the related notes to the financial statements. Comparative figures have been restated.

Impairment and deferred consideration movements recognised in interest income in the prior year have been included as separate line items in the statement of comprehensive income. There were no changes to the results of the Company as a result of this presentational change.

The major impact of the restatement is a reduction in the deemed loan balance of €125,663,140 as at 31 December 2016; (1 January 2016: €108,689,265) and a consequent accounting loss after taxation for the Company of €16,969,308 for the year ended 31 December 2016. In addition the restatement has reduced Shareholder funds for the Company resulting in a deficit of €125,589,736 as at 31 December 2016; (1 January 2016: €108,620,428).

#### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Company, in the context of applying accounting policies and preparing financial statements in accordance with the International Financial Reporting Standards, makes estimates and assumptions that affect the amounts that are recognised as income, expenses, assets or liabilities.

##### CRITICAL ACCOUNTING JUDGEMENTS

The assessment for impairment losses requires the exercise of considerable judgement by management involving matters such as local economic conditions, the valuation of the security and collateral held, as well as the timing and cost of asset disposals based on underlying market depth and liquidity. The assumptions are based on observed historical data and are updated as management considers appropriate to reflect current conditions. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the borrower become clearer.

##### KEY SOURCES OF ESTIMATION UNCERTAINTY

The use of estimates and assumptions is an integral part of recognising amounts in the financial statements that mostly relate to the following:

##### *Impairment losses of financial assets*

The Company, when performing impairment tests on the Deemed Loan to the Originator, takes into account the performance of the portfolio loans originated from the Originator. The Originator in turn analyses its loans and advances to customers and makes estimates regarding the amount and timing of future cash flows. Given that these estimates are affected by a number of factors such as the financial position of the borrower, the net realisable value of any collateral or the historical loss ratios per portfolio, actual results may differ from those estimated.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

##### *Measurement of fair values*

The Company's accounting policies and disclosures require measurement of fair values with regard to presentation of financial assets and liabilities. When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- *Level 1:* quoted prices (unadjusted) in active markets for identical assets and liabilities;
- *Level 2:* inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- *Level 3:* inputs for the asset or liability that are not based on observable market data (unobservable inputs)

#### 4. APPLICATION OF NEW AND REVISED STANDARDS

The Company has applied the following standards and amendments for the first time for the year commencing 1 January 2017.

##### *Amendment to IAS 7 Statement of Cash Flows: Disclosure Initiative*

Entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences.

Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.

The Company has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Company's liabilities arising from financing activities consist of Loan Notes. A reconciliation between the opening and closing balances of these items is provided in the cash flow statement. Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior year. Apart from the additional disclosure in the cash flow statement, the application of these amendments has had no impact on the Company's financial statements.

##### *New Standards and Interpretations not yet adopted by the Company*

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. This listing of standards issued includes those that the Company reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards when they become effective.

##### *IFRS 9 Financial Instruments: Classification and Measurement*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9.

The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. The directors are currently assessing the impact of IFRS 9.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 4. APPLICATION OF NEW AND REVISED STANDARDS (CONTINUED)

##### *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 “Revenue from Contracts with Customers” was issued on 28 May 2014 by the International Accounting Standards Board. The new standard shall be applied to all contracts with customers, except those that are in scope of other standards, such as financial leases, insurance contracts and financial instruments.

According to the new standard, an entity recognises 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.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The adoption of IFRS 15 is not expected to have any impact on the financial statements of the Company since the Company does not have any contracts with customers within the scope of IFRS 15.

#### 5. SEGMENTAL REPORTING

An operating segment is a component of a Company that engages in business activities from which it may earn revenues and incur expenses. The principal asset of the Company is portfolio of loans underpinning the Deemed Loan to the Originator, originated in Greece which generates the Company’s revenue, which is managed by the board in the United Kingdom, funded by floating rate loan notes issued and listed on Irish Stock Exchange. The Board believes that the Company has only one operating segment and operates in only one geographical area being Greece.

#### 6. INTEREST INCOME

	2017 €	2016 Restated €
Interest income on the Deemed Loan to Originator	<u>97,906,133</u>	<u>94,722,283</u>

Income from the Deemed Loan to Originator is calculated using the effective interest method.

#### 7. INTEREST EXPENSE

	2017 €	2016 €
Interest on the loan notes	<u>4,882,905</u>	<u>6,254,705</u>

#### 8. ADMINISTRATIVE EXPENSES

	2017 €	2016 €
Servicing fees	243,524	231,012
Corporate service fees	39,339	38,313
Tax compliance services fees	(3,979)	7,162
Other fees	14,426	18,500
Fees payable to the Company’s auditor and their associates for the audit of the Company’s annual accounts	<u>22,320</u>	<u>29,043</u>
	<u>315,630</u>	<u>324,030</u>

The Company has no employees (2016: nil) and, other than the corporate services fees paid to Wilmington Trust SP Services (London) Limited as set out above and in note 17, the directors received no remuneration during the year (2016: €nil). Fees charged for audit services for the year were €22,368 (2016: €33,686) and €48 (2016: €4,643) was reversed from the prior year charge as a result of an over accrual in the prior year. No non audit services were performed by the auditor (2016: €nil). In addition, fees payable for tax services for the year are €2,088 (2016: €8,108) and €6,067 (2016: €946) was reversed for the prior year charge due to over accrual in the prior year.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 9. TAXATION

##### (a) Analysis of charge for the year:

	2017 €	2016 €
<b>Current tax:</b>		
Corporation tax charge for the year 19.25% (2016: 20.00%)	<u>1,003</u>	<u>924</u>
Total income tax charge in income statement	<u><u>1,003</u></u>	<u><u>924</u></u>

The UK corporation tax rate was reduced from 21% to 20% in April 2015. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted at the reporting date. This will reduce current tax charges accordingly. Subsequently the UK government announced that the UK corporation tax rate will reduce further to 17% from 1 April 2020. It has not been possible to quantify the full anticipated effect of the announced further rate reduction, although this will reduce the Company's future current tax charge accordingly.

##### (b) Reconciliation of effective tax rate

The tax assessed on the profit for the year is lower than the standard rate of corporation tax in the UK of 19.25% (2016: 20%).

	2017 €	2016 €
Permanent differences relating to taxation of securitisation company regulations	27,431,105	16,969,482
Add back losses before tax	(27,430,102)	(16,968,384)
Prior year adjustment	<u>-</u>	<u>(174)</u>
Tax charge under taxation of securitisation company regulations 2006 of 19.25% (2016: 20%)	<u><u>1,003</u></u>	<u><u>924</u></u>

The directors are satisfied that this Company meets the definition of a 'Securitisation Company' as defined by both the Finance Act 2005 and the subsequent secondary legislation and that no incremental unfunded tax liabilities will arise.

The company is taxed in accordance with the statutory instrument no. 3296: The taxation of securities companies regulation 2006 which requires that tax is charged on profits retained by issuer. The actual retained profit for the year amounted to £5,208 (2016:£5,491).

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 10. DEEMED LOAN TO ORIGINATOR

	31 December 2017 €	31 December 2016 Restated €	01 January 2016 2016 Restated €
At start of the year/at the prior year end	917,524,067	941,708,122	1,170,034,871
Loans portfolio acquired from Originator	695,788,870	301,802,495	131,687,002
Repurchased by Originator	(307,553,665)	(100,881,458)	(122,063,732)
Repayments by Borrowers	(195,116,658)	(208,538,775)	(167,370,044)
Impairment provision	<u>(29,311,493)</u>	<u>(16,566,317)</u>	<u>(70,579,975)</u>
At 31 December	1,081,331,121	917,524,067	941,708,122
Accrued interest receivable	<u>5,331,505</u>	<u>4,279,331</u>	<u>4,329,950</u>
Deemed Loan to Originator at year end	<u>1,086,662,626</u>	<u>921,803,398</u>	<u>946,038,072</u>

The Deemed Loan to Originator underpinned by a portfolio of loans which is determined based upon criteria set out in the transaction documentation dated 9 December 2008 as amended time to time. The portfolio of loans comprises personal consumer and auto loans originated by Alpha Bank AE. Under the terms of the transaction documents, the Company can continue to purchase additional loans subject to meeting specific criteria. Alpha Bank AE as a seller warrants the eligibility criteria of the loans in addition to ensuring the portfolio meets the following Collateral Test:

- the weighted average interest rate of the loans included in the portfolio is not less than the sum of (i) 3-month EURIBOR as at the immediately preceding interest payment date, and (ii) 4 per cent; and (iii) the Weighted Average Remaining Life of the loans in the portfolio is greater than or equal to 50 months less than or equal to 85 months.

Under the term of the securitisation, the Company retains the right of 0.01% available revenue receipts from the beneficial interest in the portfolio of loans. Income in excess of 0.01% is payable to Alpha Bank AE and treated as a deferred consideration adjustment to the Deemed Loan to the Originator.

#### 11. OTHER ASSETS

	2017 €	2016 €
Amount due from parent company	<u>3,921</u>	<u>3,921</u>

#### 12. CASH AND CASH EQUIVALENTS

All withdrawals from the Company's bank accounts are restricted by the detailed priority of payments set out in the securitisation agreements.

	2017 €	2016 €
Cash and bank current accounts	48,921	28,252
Bank deposit accounts	123,473,529	355,725,665
Reserve account	<u>239,478,315</u>	<u>239,478,315</u>
Total cash and cash equivalents	<u>363,000,765</u>	<u>595,232,232</u>

The reserve account is held with Alpha Bank AE as detailed in note 17.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 13. TOTAL EQUITY

	Share capital	Retained earnings	Total
Reconciliation of movement in capital and reserves	€	€	€
Balance as at 01 January 2016	16,393	52,444	68,837
Impact of deferred consideration adjustment	-	(108,689,265)	(108,689,265)
As restated as at 01 January 2016	<u>16,393</u>	<u>(108,636,821)</u>	<u>(108,620,428)</u>
Loss for the year	-	(16,969,308)	(16,969,308)
<b>As restated balance attributable to equity holders as at 31 December 2016</b>	<b>16,393</b>	<b>(125,606,129)</b>	<b>(125,589,736)</b>
Loss for the year	-	(27,431,105)	(27,431,105)
<b>Balance attributable to equity holders as at 31 December 2017</b>	<b><u>16,393</u></b>	<b><u>(153,037,234)</u></b>	<b><u>(153,020,841)</u></b>

There are 50,000 authorised ordinary shares of £1 each. The issued share capital consists of 2 fully paid ordinary shares and 49,998 quarter paid ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### 14. LOAN NOTES AND BORROWINGS

	2017 €	2016 €
<b>Non-current liabilities</b>		
Class A floating rate loan notes	912,000,000	912,000,000
Class Z floating rate loan notes	608,000,000	608,000,000
Less: Unamortised issue cost	<u>(519,112)</u>	<u>(566,348)</u>
<b>Total loan notes and borrowings</b>	<b><u>1,519,480,888</u></b>	<b><u>1,519,433,652</u></b>

The Asset Backed Floating Rate Loan Notes due for repayment by 17 December 2029 are listed on the Irish Stock Exchange, and are secured over a portfolio of loans originated by Alpha Bank AE, in Greece (the 'Deemed Loan to the Originator'). Interest on the floating rate loan notes is payable on a quarterly basis at the three month EURIBOR plus a margin of 0.40% for the Class A loan notes and 1.00% for the Class Z loan notes. All of the floating rate loan notes are due to be repaid by 17 December 2029. Class Z loan note interest and principal repayments are subordinated to the Class A loan note.

Under the terms of the Offering Circular, the Class A and Class Z loan notes are limited-recourse debt obligations of the Company. The ability of the Company to meet its obligations under the loan notes will be directly dependent primarily upon the receipt by it of principal and interest from the borrowers of the loans underpinning the Deemed Loan to the Originator. Other than any interest earned by the Company in respect of the Company's bank accounts, the Company is not expected to have any other funds available to it to meet its obligations under the loan notes and/or any other payment obligation ranking in priority to, or pari passu with, the loan notes. Upon enforcement of the security for the loan notes, the trustee or any receiver and the Noteholders will have recourse only to the Deemed Loan to Originator, the Company's interest in the relevant ancillary rights and to any other assets of the Company then in existence as described in the Offering Circular.

The Company has not had any defaults on principal, interest or any other breaches with respect to their liabilities during the year.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 15. OTHER LIABILITIES

	2017 €	2016 €
Amount due to Originator	82,956,122	122,943,924
Interest payable	183,836	177,840
Accruals and deferred income	<u>66,304</u>	<u>72,773</u>
Total other liabilities	<u>83,206,262</u>	<u>123,194,537</u>

During 2017 the Company purchased and obtained legal title to underlying loans of €82,956,112 (2016: €122,943,924) of which €82,956,112 (2016: €122,943,924) were unsettled at the year end. The income on unsettled loans accrued to the Company since the date of sale in 2017.

#### 16. FINANCIAL RISK MANAGEMENT

The principal risks and uncertainties are set out in the Strategic Report on page 2 to 5.

The Company's financial instruments comprise of the Deemed Loan to Originator, cash and cash equivalents, other assets, interest-bearing borrowings and various receivables and payables that arise directly from its operations.

The directors have considered the financial risks affecting the Company and have included the relevant disclosures of interest rate, credit, liquidity and currency risks in the Strategic Report.

##### Classification

The IAS 39 classification of financial instruments is detailed below:

	Category	Carrying amount 2017 €	Carrying amount 2016 €
<b>Financial assets</b>			
Deemed loan to the Originator	Loans and receivables	1,086,662,626	921,803,398
Cash and cash equivalents	Cash	363,000,765	595,232,232
Other assets	Loans and receivables	3,921	3,921
<b>Financial liabilities</b>			
Loan notes	Loans and receivables	1,519,480,888	1,519,433,652
Other liabilities	Loans and receivables	83,206,262	123,194,537

##### Fair value of financial instruments

The fair values together with the carrying amounts shown in the balance sheet of the financial assets and financial liabilities are as follows:

	Note	Carrying amount 2017 €	Fair value 2017 €	Carrying amount 2016 €	Fair value 2016 €
<b>Financial assets:</b>					
Deemed Loan to Originator	10	1,086,662,626	943,223,159	921,803,398	820,405,024
Cash and cash equivalents	12	363,000,765	363,000,765	595,232,232	595,232,232
Other assets	11	<u>3,921</u>	<u>3,921</u>	<u>3,921</u>	<u>3,921</u>
<b>Financial liabilities:</b>					
Loan notes	14	1,519,480,888	1,046,459,200	1,519,433,652	1,106,408,000
Other liabilities		<u>83,206,262</u>	<u>83,206,263</u>	<u>123,194,537</u>	<u>123,194,537</u>

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

The fair value of the deemed loan to originator has been based on a discounted cash flows methodology applying market rates adjusted for the appropriate fair value credit spread. The Deemed Loan to the Originator was classified in Level 3 of the fair value hierarchy.

The fair value of Class A and Z-Notes is calculated using the relevant Bloomberg Swap curve, plus the average appropriate CDS spread for discounting the Notes' projected cash flows. Loan Notes and borrowings were classified in Level 3 of the fair value hierarchy.

The table below presents the valuation methods used for the measurement of Level 3 financial instruments:

2017	Total fair value €	Valuation method	Significant non-observable inputs
<b>Financial assets:</b>			
Deemed Loan to Originator	943,223,159	Discounted cash flows using the swap curve, plus the weighted average fair value credit spread 17.88% of the loans	Valuation of reserve adequacy for payment of hybrid securities' dividends
<b>Financial liabilities:</b>			
Loan notes and borrowings	1,046,459,200	Valuation method Discounted cash flows using the Bloomberg Swap S45 curve, plus the average CDS spread of 670.81bps	Significant non-observable inputs Valuation of reserve adequacy for payment of hybrid securities' dividends
2016	Total fair value €	Valuation method	Significant non-observable inputs
<b>Financial assets:</b>			
Deemed Loan to Originator	820,405,024	Discounted cash flows using the swap curve, plus the weighted average fair value credit spread 10.93% of the loans	Valuation of reserve adequacy for payment of hybrid securities' dividends
<b>Financial liabilities:</b>			
Loan notes and borrowings	1,106,408,000	Discounted cash flows using the Bloomberg Swap S45 curve, plus the average CDS spread of 619.33bps	Valuation of reserve adequacy for payment of hybrid securities' dividends



# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

##### Interest rate risk

Interest rate risk arises from the mismatch between the fixed rate interest received on the Deemed Loan to the Originator and the floating rate interest which it pays on the funding or vice versa. The Company receives interest predominantly at floating rates and pays interest at floating rates and hence is not exposed to interest rate risk. Also, the margin between the effective interest received from the portfolio of loans and interest paid on loan notes is considered sufficient to hedge risk of increases in floating rates on loan notes.

##### Interest rate sensitivity

The sensitivity analysis below has been determined on the Company's exposure to interest rates for interest bearing assets and liabilities at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates and has been based on management assessment of the possible changes in interest rates.

If interest rates had been 25 basis points higher and all other variables held constant, net interest income for the period ended 31 December 2017 would have been €489,692 higher. If interest rates had been 25 basis points lower and all other variables held constant, net interest income for the year ended 31 December 2017 would have been lower by €489,692.

##### Re-pricing analysis

The following table details the Company's exposure to interest rate risk by the earlier of contractual maturities or re-pricing

	Within one year €	After one year €	Non-interest bearing €	Total €
<b>At 31 December 2017</b>				
<b>Assets</b>				
Deemed Loan to Originator	119,869,502	966,793,124	-	1,086,662,626
Other assets	-	-	3,921	3,921
Cash and cash equivalents	<u>363,000,765</u>	<u>-</u>	<u>-</u>	<u>363,000,765</u>
Total assets	<u>482,870,267</u>	<u>966,793,124</u>	<u>3,921</u>	<u>1,449,667,312</u>
<b>Liabilities</b>				
Loan notes and borrowings	1,519,480,888	-	-	1,519,480,888
Other liabilities	<u>-</u>	<u>-</u>	<u>83,206,263</u>	<u>83,206,263</u>
Total liabilities	<u>1,519,480,888</u>	<u>-</u>	<u>83,206,263</u>	<u>1,602,687,151</u>

##### Foreign currency risk

The Company's principal assets and liabilities are denominated in Euros and are not exposed to any material currency fluctuations. Accordingly, the currency risk for the Company as a whole is considered to be low. Hence no sensitivity exchange analysis has been presented.

##### Liquidity risk

As the tenor of the loan notes is designed to match the tenor of the loans portfolio, there are deemed to be limited liquidity risks facing the Company. Payments made by the Company are made in accordance with the priority of payments as set out in the Offering Circular issued in connection with the issue of the floating rate notes. Under these terms, payments are made quarterly on the 17th day of March, June, September and December. The repayment of the loan notes is determined by the collection of the principal on the underlying secured assets.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table details the Company's liquidity analysis for its financial liabilities at 31 December 2017. The interest payable on the loan notes is estimated based on the outstanding principal and interest rates at the year end calculated up to the expected redemption date.

At 31 December 2017	Carrying Amount	Gross nominal outflow	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
	€	€	€	€	€	€	€
<b>Liabilities</b>							
Loan notes	1,519,480,888	1,520,000,000	-	-	-	-	1,520,000,000
Amount due to originator	82,956,122	82,956,122	82,956,122	-	-	-	-
Interest payable	183,836	30,746,227	194,268	388,537	1,780,795	9,460,876	18,921,751
Accruals and deferred income	66,304	-	-	-	66,305	-	-
<b>Total liabilities</b>	<b><u>1,602,687,150</u></b>	<b><u>1,633,702,349</u></b>	<b><u>83,150,390</u></b>	<b><u>388,537</u></b>	<b><u>1,847,100</u></b>	<b><u>9,460,876</u></b>	<b><u>1,538,921,751</u></b>
At 31 December 2016	Carrying Amount	Gross nominal outflow	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years
	€	€	€	€	€	€	€
<b>Liabilities</b>							
Loan notes	1,519,433,652	1,520,000,000	-	-	-	-	1,520,000,000
Amount due to originator	122,943,924	122,943,924	-	-	-	122,943,924	-
Interest payable	177,840	9,856,346	202,389	404,778	1,855,233	7,393,946	-
Accruals and deferred income	72,773	-	-	-	72,773	-	-
<b>Total liabilities</b>	<b><u>1,642,628,189</u></b>	<b><u>1,652,800,270</u></b>	<b><u>202,389</u></b>	<b><u>404,778</u></b>	<b><u>1,928,006</u></b>	<b><u>130,337,870</u></b>	<b><u>1,520,000,000</u></b>

The maturity analysis in the table above assumes no Event of Default during the life of the loan notes. If an Event of Default is triggered, then the loan notes, under the terms of the Offering Circular, may become due and payable. The key Event of Default triggers are if the payment of principal or interest is delayed more than three or five days respectively. During the year there were no such events triggered.

#### Credit risk

The maximum exposure to Credit risk is considered by the directors to be the carrying value of the Deemed Loan to Originator and bank deposits.

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

The credit quality of underlying portfolio of loans is summarised as follows:

	2017	2016
	€	€
Neither past due nor impaired	566,289,524	216,164,643
Past due but not impaired	107,195,559	370,478,509
Impaired	<u>660,460,522</u>	<u>553,131,733</u>
	1,333,945,605	1,139,774,885
Less: allowance for impairment	<u>(247,282,979)</u>	<u>(217,971,487)</u>
	<u>1,086,662,626</u>	<u>921,803,398</u>

	€	€
Satisfactory	566,289,524	216,164,643
Watch list	-	-
	<u>566,289,524</u>	<u>216,164,643</u>

#### Ageing analysis of past due not impaired amounts

	2017	2016
	€	€
Past due 1 – 29 days	5,301,292	268,274,420
Past due 30 – 89 days	91,544,397	90,091,542
Past due > 90 days	<u>10,349,870</u>	<u>12,112,547</u>
	<u>107,195,559</u>	<u>370,478,509</u>

#### Allowance for impairment losses

	2017	2016
	€	€
Balance as at 1 January	217,971,487	201,405,170
Impairment losses /(release) for the year	<u>29,311,493</u>	<u>16,566,317</u>
Balance as at 31 December	<u>247,282,980</u>	<u>217,971,487</u>

The pre condition that there must be a need for objective evidence in order for the loss to be recognised and effectively the impairment loss to be indicated on individual loans, may lead to a delay in the recognition of a loan's impairment, which has already occurred. Within this context and in accordance with IAS 39, it is appropriate to recognise impairment losses for those losses which have been incurred but have not yet been reported ("IBNR"). Provisions for loss events that have occurred but have not yet been reported ("IBNR provisions") are calculated on a collective basis. The collective provision has been accordingly applied on the 'neither past due nor impaired' and the 'past due but not impaired' population.

For the purpose of collective assessment with regards to restructured accounts, all retail restructured loans are included in impairment groups and an impairment loss is recognised based on the Loss Given Default ('LGD') of each group.

At 31 December 2017 the collective provision amounted to €210,286,775 (2016: €179,654,918). The IBNR provision amounted to €36,996,204 (2016: €38,316,568).

# KATANALOTIKA PLC

## NOTES TO THE FINANCIAL STATEMENT (CONTINUED)

### FOR THE YEAR ENDED 31 DECEMBER 2017

#### 16. FINANCIAL RISK MANAGEMENT (CONTINUED)

As set out in the policy on going concern, the current economic conditions in Greece may have an impact on the credit quality of the portfolio of loan underlying the Deemed Loan to Originator which could result in a significant additional impairment provision. However, the credit risk is ultimately borne by the Originator since the Notes are held by the Originator and the transaction is structured as limited recourse, such that the ability of the Company to meet its obligations under the loan notes will directly depend upon receipt of funds from the Originator, which is in turn dependant on the ability of underlying borrowers to service their loans.

These key assumptions are based on observable data from historical patterns and are updated regularly by Alpha Bank AE as new data becomes available.

The key assumptions for recoverability relate to estimates of the probability of any account going into default, cash flow from borrowers' accounts, their timing and expected proceeds from the sale of repossessed collateral.

In addition, the directors consider how appropriate past trends and patterns could impact the current economic climate and may make any adjustments they believe are necessary to reflect the current economic and market conditions.

The accuracy of impairment calculations would therefore be affected by unexpected changes to the economic situation, variances between the models used and the actual results, or assumptions which differ from the actual outcomes.

#### Capital risk management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders. The Company is not subject to any external capital requirements except for the minimum requirement under the Companies Act 2006. The Company has not breached the minimum requirement.

#### 17. RELATED PARTY TRANSACTIONS

The Company has identified the following transactions which are required to be disclosed under the terms of IAS 24 Related Party Disclosures.

During the year administration and accounting services were provided by Wilmington Trust SP Services (London) Limited for which Wilmington Trust SP Services (London) Limited earned €39,339 (2016: €38,313) including irrecoverable VAT and expenses. Mr D J Wynne, a director of the Company is also a director of Wilmington Trust SP Services (London) Limited. Mrs M Clarke-Whelan, who is a director of the Company, is an employee of Wilmington Trust SP Services (London) Limited.

During 2008, the Company acquired a portfolio of loans for €1,513,930,883 from Alpha Bank AE and under the terms of the securitisation transaction Alpha Bank AE was appointed as the loans servicer to administer the portfolio of loans. Under the terms of the securitisation transaction, the Company is able to purchase additional loans during a revolving period under certain conditions. During 2017, an additional portfolio of loans of €695,788,870 (2016: €301,802,495) was acquired and €307,553,665 (2016: €100,881,458) of loans repurchased by Alpha Bank AE, of which €82,956,112 (2016: €122,943,924) were unsettled at the year end. During 2017 Alpha Bank AE made cash transfers to the Company of €195,116,658 (2016: €208,538,775) of principal and €52,171,046 (2016: €54,799,146) of interest in relation to the servicing of the portfolio of loans. Alpha Bank AE earned €243,524 (2016: €231,012) in servicing fees for acting as the servicer of the portfolio of loans. At 31 December 2017 €22,217 (2016: €20,231) was outstanding and included in accruals and deferred income.

Given the details set out in note 13, Alpha Bank AE holds Loan Notes of €1,520,000,000 as at 31 December 2017 (2016: €1,520,000,000). During 2017, €4,835,669 (2016: €6,207,469) of interest on Loan Notes was payable to Alpha Bank A.E of which €183,836 (2016: €177,840) was outstanding at year end.

# **KATANALOTIKA PLC**

## **NOTES TO THE FINANCIAL STATEMENT (CONTINUED)**

### **FOR THE YEAR ENDED 31 DECEMBER 2017**

#### **17. RELATED PARTY TRANSACTIONS (CONTINUED)**

Under the terms of the sale agreement relating to the portfolio of loans, Alpha Bank AE earns deferred consideration. During the year this amounted to €90,826,207 (Restated 2016: €88,545,614). At 31 December 2017 €153,098,451 (2016: €125,663,140) was owed by Alpha Bank AE and is included within the Deemed Loan to Originator.

The Company has a reserves account with Alpha Bank AE, as at 31 December the balance held was €239,478,315 (2016: €239,478,315).

Katanalotika Holdings Limited is a related party by virtue of being parent of the Company. At 31 December 2017, an amount of €3,921 (2016: €3,921) was receivable from the parent.

Other payables include a balance of €nil (2016: €nil) of payable for portfolio of loans acquired to Alpha Bank A.E. as at year end.

#### **18. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

Katanalotika Holdings Limited holds 49,999 shares in the Company. The remaining one share is held under a nominee Declaration of Trust for charitable purposes. Wilmington Trust SP Services (London) Limited holds the entire share capital in Katanalotika Holdings Limited under a declaration of trust for charitable purposes. Alpha Bank AE has no direct ownership interest in the Company. However, in accordance with IFRS 10 the results of the Company are included in the consolidated financial statements of Alpha Bank AE, a Company incorporated in Greece, whose principal place of business is 40 Stadiou, 102 52 Athens, Greece. It is the largest and smallest group into which the results of the Company are consolidated. The financial statements of Alpha Bank AE can be obtained from [www.alpha.gr](http://www.alpha.gr).

#### **19. POST BALANCE SHEET EVENTS**

Portfolio of loans amounting to €428,815,975 have been reassigned to the originator since the year end. The Company has also acquired a portfolio of loans amounting to €331,162,600 since the year end.