EUROBANK BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2012

CONTENTS

Independent auditor's report

To Shareholders of the Eurobank Bulgaria AD

Report on the Financial Statements

We have audited the accompanying financial statements of Eurobank Bulgaria AD (the "Bank") which comprise the balance sheet as of 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

pwc

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Eurobank Bulgaria AD as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

Management is also responsible for preparing the Annual Report in accordance with the Accounting Act.

We are required by the Accounting Act to express an opinion whether the Annual Report is consistent with the annual financial statements of the Bank.

In our opinion, the Annual Report set out on pages 1 to 9, is consistent with the accompanying financial statements of the Bank as of 31 December 2012.

Rositsa Boteva
Registered Auditor

Tsvetana Tsankova
PricewaterhouseCoopers Audit OOD

3 April 2013
Sofia, Bulgaria

(All amounts are shown in BGN thousands unless otherwise stated)

DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2012.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.
The Bank's corporate name was amended on 11 January 2013 from "Eurobank EFG Bulgaria AD" to "Eurobank Bulgaria AD", following Extraordinary General Meeting's resolution on 6 November 2012.

BUSINESS OVERVIEW

Development and results from the business activity

Eurobank Bulgaria is a leading universal bank in Bulgaria, part of Eurobank Group. The Bank provides a broad range of banking services to local and international customers through its nationwide branch network. The Bank operates 188 branches and 7 business centres and employs 2,700 people.

Developing innovative products and services and emphasizing on quality, the Bank maintained its leading position and continued to build long-term relations of cooperation and trust with its customers. The good image and the visibility of the offices all over the country allowed the Bank to attract new customers and to gain the confidence of the existing clients. The Bank continues to meet the challenges related to the increased competition in the banking sector and financial culture of the clients.

The crisis was still around in 2012 but there were some positive signs that the Bulgarian economy was gradually emerging from it. The real growth was positive throughout the whole year, which shows the early signs that the country is recovering from the recession. All other macroeconomic indicators were also encouraging – inflation remained subdued, the structure of foreign direct investments was improving, unemployment seemed to be under control and the budget deficit was much better than expected. The forecasts for 2013 estimate some acceleration of the GDP growth to about 1% - 1.5% for the year, which in turn indicates that hard times of the crisis are behind us.

The Bank will follow its strategy to remain the bank of first choice, providing the most innovative and best quality products and services while meeting the constantly evolving expectations of the customers, thus creating value for them and its shareholders. The reduction of external funding dependency and the increase of local deposit market share will remain top priorities. The Bank will continue to put strong emphasis on cost containment, including cost of funds. In terms of the lending portfolio, Postbank will focus on a controlled expansion in the target segments, adhering to strict lending criteria and improving the overall quality of the portfolio.

Despite the difficult environment, the Bank maintained its market share, net worth and assets. The total assets of the Bank reached BGN 5,637 million as of 31 December 2012. Operating income of the Bank reached BGN 262 million and the operating expenses for the year amounted to BGN 151 million. The Bank reports a net profit of BGN 1,5 million.

As of 31 December 2012 the Bank's net loan portfolio amounts to BGN 4,035 million. During the year the Bank further fortified its Balance sheet and impairment of loans and receivables reached BGN 319 million.

The Bank finances its operations mainly through funds attracted from its clients. The sound market position of the Bank, its deposit market share as well as the good reputation, confirm that the deposit products offered by the Bank are competitive. As of 31 December 2012 attracted funds from clients amounted to BGN 4,413 million. With regards to preserving normal operating environment in the Bank, it is essential that optimal liquidity levels are to be maintained constantly. As of 31 December 2012 the Bank's ratio of liquid assets is 26.75%.

(All amounts are shown in BGN thousands unless otherwise stated)

The capital of the Bank is sufficient to maintain capital adequacy cover for its risk-weighted assets. The Bank has a strong capital position which as of 31 December 2012 reached BGN 645 million (calculated in accordance to the Capital Adequacy Ordinance 8 of the Bulgarian National Bank) representing Basel II capital adequacy ratio of 17.06%, significantly higher than the 12% minimum set by the Bulgarian National Bank. The reinforcement of the capitalization increases the potential of the Bank for further growth and utilization of opportunities.

Important events that have occurred during the financial year

In 2012 Postbank traditionally occupied a leading market position in credit and debit cards business, mortgage lending and deposits, factoring services for corporate clients, investment banking, custody services to local and foreign institutional clients.

Postbank was among the leading institutions on the Bulgarian money and capital market, an active participant in the interbank currency market and in the fixed-income securities market as well as among the 10 investment intermediaries with highest turnover on the Bulgarian stock exchange. The Bank has a specialized investment banking department and numerous large institutional clients.

In June 2012 the Bulgarian Credit Rating Agency (BCRA) renewed the assigned a year ago long-term rating of BBB to Postbank and the bank's short-term rating of A-2. This is the second rating assigned to the Bank by the rating agency. The rating helps Postbank to successfully continue raising funds, both locally and abroad, to finance the Bulgarian businesses and households, thus supporting the country's economy.

In March 2012 Postbank and the International Finance Corporation (IFC), member of the World Bank Group, signed a Guarantee Facility Agreement under the IFC's Global Trade Finance Program. Through this agreement, Postbank has secured a trade facility of USD 20 million to support the development and promotion of trade activities of Bulgarian exporters and importers. The agreement with the IFC complements Postbank's wide range of trade finance products and services, designed to support its clients in effectively trading with their foreign business counterparts.

In 2012 the factoring business of the Group in Bulgaria was transferred from Eurobank Factors - Bulgaria Branch to Postbank. The year 2012 has been extremely successful for the factoring business of the Bank. The reported increase of the factoring business is 55% on annual base compared to the volumes of the Eurobank Factors – Bulgaria Branch. Postbank has leading position in export factoring and second place regarding the total factoring market for the year (including export and local deals). Postbank succeeded to attract new clients as well as new contractors of its current clients and to build up stable and profitable portfolio.

In regards to the retail banking products, the Bank traditionally holds strong positions in mortgage lending, consumer lending and cards, and deposit products.

In October 2012 the Bank announced its decision to reduce the interest rate for its mortgage loans for new and existing customers, which respectively led to a decrease in the rate of the monthly instalments of the clients. The Bank made this favourable change as a responsible financial partner which helps its clients manage their finances throughout each stage of their life.

During the year the financial institution has accomplished numerous partnerships with retailers and has offered to its credit cardholders many discounts in shops, gas stations, travel agencies, hotels, etc. The credit cardholders' loyalty program has been extended to both American Express and Visa clients. In addition, in December Postbank and Visa extended their partnership on the Bulgarian market and started offering the prestigious Visa Gold to all current and new clients of the bank.

The financial institution reported excellent results of its online banking platform use (e-Postbank) since the launch of the all-new version in June 2012. Over 60% of the online banking users have preferred the new platform for the first three months of its launch. The results of the Bank demonstrated an increased interest in the use of online banking compared to the traditional one – nearly 40% of all client transactions are made through internet banking. Customers prefer online services because of their convenience, speed, security and lower fees.

Traditionally, the financial institution's efforts to improve the economic development, to demonstrate responsible and ethical market behaviour, to offer high quality and innovative products, and to support social and environmental causes, were recognized by numerous awards in 2012:

- For the third consecutive year, in 2012, the financial institution has been acknowledged as the best bank in Bulgaria offering custody services to foreign and local institutional clients. This recognition was awarded by the annual ranking of "Global Custodian", the most prestigious global magazine for custody services.
- At the annual awards of the Bulgarian PR Association, the Confederation of Industrialists and Employers in Bulgaria awarded Postbank for its CSR and sustainable development policy.
- The Bulgarian PR Association acknowledged the 20-anniversary campaign of the Bank as the "Best PR campaign".
- B2b Media awarded Postbank for being "The greenest financial institution for 2012".
- Bulgarian Business Leaders Forum recognized the educational program "High Start with Postbank" at its annual responsible business awards.

Also numerous awards were given to Ms. Petia Dimitrova, Executive Director of Postbank, namely:

- Chosen as one the 192 Young Global Leaders honourees for 2012 by the Young Global Leader Forum. The prestigious nomination is bestowed by the World Economic Forum and it serves as recognition for Ms. Dimitrova's exceptional achievements in the field of management on both the professional and the social level.
- Received the award "Mrs. Economy" by Economy magazine for her contribution to the development of the banking sector in Bulgaria.Received the recognition "Banker of the Year 2012" by Banker weekly newspaper.

Finally, Mr. Atanas Karagyozov, Deputy Head of Branch Network Division, was awarded "Employee of the Year" by Forbes Bulgaria magazine.

Postbank continued the development of its program in favour of the Bulgarian education "High Start". The seventh edition of the initiative invited students to participate in the important social debate for the future of Bulgaria and express their opinion on pressing problems with an essay on the topic "My High Start for Bulgaria Starts With…". The aim of the initiative was to single out the twenty most important steps which will make Bulgaria look more attractive for the young generation. The initiative resulted in the creation of the first Youth Road Map for Development of Bulgaria, which compiled the solutions offered by the youths. The Map was presented to representatives of the Government.

Postbank constantly mitigates the adverse environmental impact of its operations and to make use of every opportunity to induce positive ecological changes. This was possible within the program "Green Start with Postbank" – an internal campaign that aims to foster environmentally friendly behaviour of the company. In 2012, for the fifth consecutive year, Pancharevo lake became a better place for relaxation thanks to the volunteers from Postbank, their friends and families. The initiative for cleaning the area around the lake is part of the long-term project of the financial institution entitled "Crystal Purity of Pancharevo".

An environmental office began operating within the financial institution in 2012. It introduced a systematic approach for measuring the cost of energy, water, paper and other supplies in the bank premises. The total consumption of electricity is calculated through a tailored methodology and transformed into carbon dioxide. A procedure for monitoring and management of the environmental risk of business loans is being developed, which aims at reducing the polluting operations of the Bank's credit receivers.

Additionally, in 2012, the Bank supported the fight against human trafficking through the realization of the international initiative The No Project in Bulgaria. A series of training seminars were organized in Sofia as well as three exhibitions in only a few months. The No Project is an independent initiative that aims at raising awareness and critical thinking on the issue of human trafficking. The project is

(All amounts are shown in BGN thousands unless otherwise stated)

specifically targeted at young people and uses popular means of expression such as music, arts, education and social media.

Eurobank merger with the National Bank of Greece S.A.
The planned merger of Eurobank with National Bank of Greece, the two largest banking groups in Greece, is an important development in the overall restructuring of the Greek banking system.
The new entity, with its enhanced size in a European context, will exploit the competitive advantages of both organizations, and, will thus be able to play a leading role in the financing of Greek companies, the gradual restoration of confidence, the rebuilding of the Greek economy and its return to growth on new, sounder foundations.

The combined group will have a firm footprint in the region of Central and Eastern Europe, and it will hold lead positions in most of the markets where it is present.

In particular, the combined group will have, on the basis of the consolidated financial statements of NBG and Eurobank as at 31 March 2012, total assets of €177.7 billion, total loans of €109.7 billion and deposits of €87.9 billion. It is estimated that the combined group will achieve annual pre-tax synergies in the order of €570–630 million by end 2015.

These figures make the new entity one of the strongest Banking groups in the CEE region with a solid commitment to support the economies of the region and offer its corporate and retail clients unique opportunities in a wide portfolio of products and services.

SHARE CAPITAL STRUCTURE

As at 31 December 2012 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 34.56%, another 54.27% of the share capital is owned by ERB New Europe Holding B.V., 11.16% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

MANAGEMENT BOARD

As at 31 December 2012 the Management Board consisted of the following members:

- Petia Dimitrova – Chairperson and Chief Executive Officer
- Dimitar Shoumarov – Executive Director
- Anthony Hassiotis – Executive Director
- Iordan Souvandjiev - Member
- Ioannis Vouyioukas – Member

Mr. Dimitar Shoumarov became a member of the Management Board on 9 August 2012 after due registration with the Commercial Register.

Mr. Ilian Raychev was a member of the Management Board until 11 September 2012.

Mr. Anthony Hassiotis and Mr.Ioannis Vouyioukas were members of the Management Board until 25 February 2013.

1. The total annual remuneration of the members of the Management Board

In 2012 the members of the Management Board did not receive remunerations from the Bank in their capacity of Management Board members.

(All amounts are shown in BGN thousands unless otherwise stated)

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Management Board during the year

No member of the Management Board has owned or transferred shares or bonds of the Bank.

3. The Management Board members' rights to acquire shares and bonds of the company

No member of the Management Board holds special rights of acquisition of shares or bonds of the Bank.

4. The Management Board member's ownership in other commercial enterprises, as:

4.1. Partners with unlimited liability

No member of the Management Board has been a partner with unlimited liability in other commercial enterprise.

4.2. Partners/shareholders holding more than 25 per cent of the capital of another company

- **Anthony Hassiotis**

Investments AMK EOOD, Bulgaria – sole owner

4.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Petia Dimitrova**

Bulgarian Retail Services AD, Bulgaria – Chairperson of the Board of Directors and Executive Director

ERB Property Services Sofia AD, Bulgaria (former name EFG Property Services Sofia AD, date of change 25/3/2013) – Member of the Board of Directors

IMO Property Investments Sofia EAD, Bulgaria – Member of the Board of Directors and Executive Director

IMO Rila EAD, Bulgaria – Deputy Chairperson of the Board of Directors and Executive Director

IMO Central Office EAD, Bulgaria – Deputy Chairperson of the Board of Directors and Executive Director

IMO 03 EAD, Bulgaria - Member of the Board of Directors and Executive Director

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Member of the Board of Directors (effective as of 14.03.2012)

Bulgarian Business Leaders Forum (BBLF), Bulgaria – Member of the Board of Directors

American Chamber of Commerce in Bulgaria, Bulgaria – Member of the Board of Directors

State-owned enterprise Communicative construction and rehabilitation, Bulgaria – Member of the Board of Directors

Municipal Bank AD, Bulgaria – Member of the Supervisory Board (until 13.08.2012)

Confederation of Employers & Industrialists in Bulgaria, Bulgaria – Member of the Management Board (From 29.06.2012 to 22.11.2012)

- **Anthony Hassiotis**

Bancpost S.A., Romania – Chief Executive Officer (effective as of July 2012)

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Member of the Board of Directors

(All amounts are shown in BGN thousands unless otherwise stated)

Investments AMK EOOD, Bulgaria – Manager

Confederation of Employers & Industrialists in Bulgaria, Bulgaria – Member of the Management Board (until 29.06.2012)

- **Iordan Souvandjiev**

IMO Property Investments Sofia EAD, Bulgaria – Member of the Board of Directors

IMO Central Office EAD, Bulgaria – Member of the Board of Directors and Executive Director

IMO Rila EAD, Bulgaria – Member of the Board of Directors and Executive Director

ERB Property Services Sofia AD, Bulgaria (former name EFG Property Services Sofia AD, date of change 25.03.2013) – Member of the Board of Directors

Vinimpeks 21 AD, Bulgaria – Member of the Board of Directors

- **Ioannis Vouyioukas**

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Chairman of the Board of Directors and Executive Director

EFG Auto Leasing EOOD, Bulgaria – Manager

5. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2012.

SUPERVISORY BOARD

As at 31 December 2012 the Supervisory Board consisted of the following members:

- Theodoros Karakasis – Deputy Chairman of the Supervisory Board
- Evangelos Kavvalos - Member
- Christos Adam – Member
- Nikolaos Aliprantis – Member

Mr Piergiorgio Pradelli was a member and chairperson of the Supervisory Board until 30August 2012.

1. The total annual remuneration of the members of the Supervisory Board

In 2012 the members of the Supervisory Board did not receive remunerations from the Bank in their capacity of Supervisory Board members.

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2012

No member of the Supervisory Board has owned or transferred shares or bonds of the Bank.

3. The Supervisory Board member's rights to acquire shares and bonds of the company

No member of the Supervisory Board holds special rights of acquisition of shares or bonds of the Bank.

4. The Supervisory Board member's ownership in other commercial enterprises, as:

4.1. Partners with unlimited liability

No member of the Supervisory Board has been a partner with unlimited liability in other commercial enterprise.

4.2. Partners/shareholders holding more than 25 per cent of the capital of another company

No member of the Supervisory Board holds more than 25 per cent of the capital of another company.

4.3. Participants in the management of other companies or cooperatives as procurators, managers or board members

- **Piergiorgio Pradelli**

Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors (resignation date 31.05.2012)

Bancpost S.A., Romania – Member of the Board of Directors (resignation date 24.05.2012)

Eurobank A.D. Beograd, Serbia – Member of the Board of Directors (resignation date 24.05.2012)

Eurobank Tekfen A.S., Turkey – Member of the Board of Directors (resignation date 31.05.2012)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (resignation date 31.05.2012)

Eurobank Ergasias S.A., Greece – General Manager, Member of the Executive Committee (resignation date 31.05.2012)

Eurobank Asset Management M.F.M.C. S.A., Greece – Member of the Board of Directors (resignation date 01.06.2012)

ERB New Europe Funding B.V., The Netherlands – Managing Director A (resignation date 25.05.2012)

ERB New Europe Funding II B.V., The Netherlands – Managing Director A (resignation date 25.05.2012)

- **Theodoros Karakasis**

Bancpost S.A., Romania – Deputy Chairman of the Board of Directors

ERB Retail Services IFN S.A., Romania – Member of the Board of Directors

ERB Leasing IFN S.A., Romania – Member of the Board of Directors

Eurobank Property Services S.A., Romania – Chairman of the Board of Directors

ERB Property Services d.o.o. Beograd, Serbia – Chairman of the Supervisory Board

Eurobank A.D. Beograd, Serbia – Chairman of the Management Board

ERB Leasing EAD, Bulgaria (former name EFG Leasing EAD date of change 01.02.2013) – Member of the Board of Directors

ERB Property Services Sofia AD, Bulgaria (former name EFG Property Services Sofia AD, date of change 25/3/2013) – Chairman of the Board of Directors

CEH Balkan Holdings Limited – Member of the Board of Directors (effective as of 12.12.2012)

Eurobank Ergasias S.A., Greece – Deputy General Manager

Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors

(All amounts are shown in BGN thousands unless otherwise stated)

Hellenic-Romanian Chamber of Commerce and Industry – Member and Secretary General of the Board of Directors

- **Evangelos Kavvalos**

Eurobank Ergasias Leasing S.A., Greece – Member of the Board of Directors

Eurolife ERB Life Insurance S.A., Greece - Member of the Board of Directors

Eurobank Factors S.A., Greece – Member of the Board of Directors

ERB Insurance Services S.A., Greece – Member of the Board of Directors

Eurobank Tekfen A.S., Turkey - Member of the Board of Directors (resignation date 20.12.2012)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board

Eurobank A.D. Beograd, Serbia – Member of the Management Board

Eurobank Ergasias S.A., Greece – General Manager, Member of the Executive Committee

Unitfinance S.A., Greece - Member of the Board of Directors

- **Christos Adam**

Eurobank Ergasias S.A., Greece – Deputy General Manager

Eurobank Factors S.A., Greece – Member of the Board of Directors

Eurobank Remedial Services S.A., Greece – Member of the Board of Directors

Eurobank Property Services S.A., Greece – Member of the Board of Directors

Eurobank Financial Planning Services S.A., Greece – Member of the Board of Directors (effective as of 14.12.2012)

- **Nikolaos Aliprantis**

Eurobank Ergasias S.A., Greece – Assistant General Manager

Eurobank Ergasias Leasing S.A., Greece – Member of the Board of Directors

Eurobank Factors S.A., Greece – Member of the Board of Directors

Eurobank A.D. Beograd, Serbia – Member of the Management Board

5. The Contracts under Article 240b of the Commerce Act

The Bank has not entered into contracts specified in Article 240b, paragraph 1 of the Commerce Act during 2012.

GROUP STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2012 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2013

In 2013 the Bank will concentrate on maintaining strong capital adequacy and liquidity ratios. Concurrently, due to the improving but still difficult business environment, it will also focus on new business and fee revenue generation. Growth in business complemented with strong control of expenses will support Bank's revenues.

(All amounts are shown in BGN thousands unless otherwise stated)

Focusing on the domestic deposit gathering will continue to be a top priority. Properly managing the cost of funds will be a prerequisite to ensure the Bank will be able to price its lending products at attractive rates. The Bank will also seek to explore alternative sources of external funding that might be available.

Postbank will target selective growth of its loan portfolio, adhering to appropriate credit extension criteria while ensuring that the overall quality of the portfolio remains at acceptable levels.

The Management acknowledges that properly motivating and remunerating its employees is a must while it will ensure they are adequately trained and given all resources needed to meet the clients' demands for high quality products and services.

The general strategy of the Bank remains to be the bank of first choice, providing the most innovative and suitable products and quality services while meeting the constantly evolving expectations of our customers thus creating value for them and the shareholders.

MANAGEMENT RESPONSIBILITIES

The Directors are required by Bulgarian law to prepare financial statements each financial year that give a true and fair view of the financial position of the company as at the year end and its financial results. The management has prepared the enclosed financial statements in accordance with IFRS.

The Directors confirm that suitable accounting policies have been used.

The Directors also confirm that the legislation applicable for banks in Bulgaria has been followed and that the financial statements have been prepared on a going concern basis.

The Directors are responsible for keeping proper accounting records, for safeguarding the assets and for taking reasonable steps for the prevention and detection of potential fraud and other irregularities.

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

3 April 2013
Sofia, Bulgaria

(All amounts are shown in BGN thousands unless otherwise stated)

Income statement

	Notes	Year ended 31 December	
		2012	2011
Interest and similar income	1	417,207	480,193
Interest and similar charges	1	(207,172)	(236,469)
Net interest income		**210,035**	**243,724**
Fee and commission income	2	68,922	68,605
Fee and commission expense	2	(13,855)	(14,525)
Net fee and commission income		**55,067**	**54,080**
Dividend income		572	581
Other operating income	3	169	162
Net trading income	4	142	451
Gains less (losses) from trading securities	12	(84)	276
Gains less (losses) and impairment of securities available for sale	14	(3,492)	1,152
Other operating expenses	5	(132,415)	(142,085)
Deposit Insurance Fund expense		(18,554)	(17,251)
Impairment charge for credit losses	7	(109,647)	(132,797)
Profit before income tax		**1,793**	**8,293**
Income tax expense	8	(302)	(845)
Profit for the year		**1,491**	**7,448**

The Financial statements were authorized by the management on 3 April 2013.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor

3 April 2013

Tsvetana Tsankova
PricewaterhouseCoopers Audit OOD

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of comprehensive income

	Notes	Year ended 31 December 2012		Year ended 31 December 2011	
Profit for the year			**1,491**		**7,448**
Other comprehensive income for the year, after tax:					
Available for sale securities					
-net changes in fair value, net of tax	9	8,944		1,954	
-transfer of (profit)/loss to net profit on sale	9	(2,185)		(4,724)	
Other comprehensive income/(loss) for the year	**9**		**6,759**		**(2,770)**
Total comprehensive income for the year			**8,250**		**4,678**

The Financial statements were authorized by the management on 3 April 2013.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor

Tsvetana Tsankova
PricewaterhouseCoopers Audit OOD

3 April 2013

(All amounts are shown in BGN thousands unless otherwise stated)

Balance sheet	Notes	As at 31 December	
		2012	**2011**
Assets			
Cash and balances with the Central Bank	10	618,214	698,943
Loans and advances to banks	11	667,614	848,003
Financial assets held for trading	12	6,607	1,450
Loans and advances to customers	13	4,035,101	4,154,651
Investment securities available-for-sale	14	174,899	155,733
Derivative financial instruments	20	7,049	16,087
Investment property	15	876	876
Property, plant and equipment	16	59,442	67,868
Intangible assets	17	31,826	30,730
Current income tax recoverable		2,709	3,647
Other assets	18	32,847	12,899
Total assets		**5,637,184**	**5,990,887**
Liabilities			
Deposits from banks	19	105,686	92,005
Derivative financial instruments	20	14,274	23,152
Due to customers	21	4,413,218	4,717,748
Debt issued and other borrowed funds	22	268,922	339,265
Deferred income tax liabilities	23	3,985	3,870
Provisions for other liabilities and charges	24	2,185	1,669
Retirement benefit obligations	25	2,644	2,642
Other liabilities	26	30,917	23,433
Total liabilities		**4,841,831**	**5,203,784**
Shareholders' equity			
Share capital	27	452,753	452,753
Other reserves, net		342,600	334,350
Total shareholders' equity		**795,353**	**787,103**
Total shareholders' equity and liabilities		**5,637,184**	**5,990,887**

The Financial statements were authorized by the management on 3 April 2013.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor

Tsvetana Tsankova
PricewaterhouseCoopers Audit OOD

3 April 2013

The following notes set out on pages 16 to 70 form an integral part of these financial statements

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of changes in shareholders' equity

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve (deficit)	Retained earnings and other reserves	Total
Balance at 1 January 2011	**452,753**	**2,376**	**(7,104)**	**334,400**	**782,425**
Other comprehensive income for the year	-	-	(2,770)	-	**(2,770)**
Profit for the year	-	-	-	7,448	**7,448**
Total comprehensive income for the year 2011	**-**	**-**	**(2,770)**	**7,448**	**4,678**
Balance at 31 December 2011	**452,753**	**2,376**	**(9,874)**	**341,848**	**787,103**
Balance at 1 January 2012	**452,753**	**2,376**	**(9,874)**	**341,848**	**787,103**
Other comprehensive income for the year	-	-	6,759	-	**6,759**
Profit for the year	-	-	-	1,491	**1,491**
Total comprehensive income for the year 2012	**-**	**-**	**6,759**	**1,491**	**8,250**
Transfer to retained earnings		**(2)**	**-**	**2**	**-**
Balance at 31 December 2012	**452,753**	**2,374**	**(3,115)**	**343,341**	**795,353**

The Financial statements were authorized by the management on 3 April 2013.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor

3 April 2013

Tsvetana Tsankova
PricewaterhouseCoopers Audit OOD

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows

	Year ended 31 December	
	2012	**2011**
Cash flow from operating activities		
Interest received	434,430	506,872
Interest paid	(217,230)	(264,040)
Dividends received	572	581
Fees and commission received	67,605	68,746
Fees and commission paid	(13,267)	(13,419)
Amounts paid to and on behalf of employees	(60,204)	(66,072)
Net trading and other income received	(37)	2,323
Other expenses paid	(77,510)	(81,632)
Tax paid	-	(748)
Cash from operating activities before changes in operating assets and liabilities	**134,359**	**152,611**
Changes in operating assets and liabilities		
Net decrease in reserve with the Central Bank	14,268	1,600
Net (increase)/decrease in trading securities	(5,056)	39,025
Net (increase) in loans and advances to customers	(585)	(137,891)
Net (increase) in other assets	(10,642)	(1,033)
Net increase/(decrease) in derivatives liabilities	66	(34,209)
Net increase/(decrease) in due to other banks	13,657	(345,046)
Net (decrease)/increase in amounts due to customers	(300,588)	79,934
Net (decrease) in other liabilities	(210)	(2,529)
Net cash flow from operating activities	**(154,731)**	**(247,538)**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(8,299)	(12,283)
Purchase of investment securities (Note 14)	(56,969)	(35)
Proceeds from disposal of property and equipment	-	8
Proceeds from disposal of investment securities (Note 14)	42,690	163,016
Net cash flow from investing activities	**(22,578)**	**150,706**

(Continued on the next page)

(All amounts are shown in BGN thousands unless otherwise stated)

Statement of cash flows (continued)

	Year ended 31 December	
	2012	**2011**
Cash flow from financing activities		
Repayments of issued debt securities	(40,000)	-
Long-term financing received	14,780	29,827
Long-term debt repaid	(44,677)	(14,925)
Net cash used in financing activities	**(69,897)**	**14,902**
Effect of exchange rate changes on cash and cash equivalents	356	446
Net change in cash and cash equivalents	**(246,850)**	**(81,484)**
Cash and cash equivalents at beginning of year	1,337,548	1,419,032
Cash and cash equivalents at end of year (Note 28)	**1,090,698**	**1,337,548**

The Financial statements were authorized by the management on 3 April 2013.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ Град София

Dimitar Shoumarov
Member of the Management Board, Executive Director and Chief Financial Officer

Initialled for identification purposes in reference to the auditor's report

Rositsa Boteva
Registered Auditor

Tsvetana Tsankova
PricewaterhouseCoopers Audit OOD

3 April 2013

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements

General information

Eurobank Bulgaria AD (the Bank) provides retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia and it has 188 network locations and 7 business centres (2011: 206 network locations). The address of its registered office is as follows: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,700 people (2011: 2,859).

Accounting policies

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

A. Basis of preparation

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

The policies set out below have been consistently applied to the years 2012 and 2011. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future.

Impact of the economic crisis in Greece

Greece entered into a new funding and restructuring programme with the European Commission, the ECB and the eurozone member-states as agreed in the Eurogroup meeting of February 21st 2012. The programme aimed at bringing the country's public debt-to-GDP ratio below 120% by 2020.

The new funding and reform programme improved the country's financial position and outlook, via the reduction of public debt and its servicing costs from 2012 onwards.

On the back of these developments, and after the implementation/legislation of a long list of structural reforms and fiscal austerity measures for 2013-16 by the Greek Government, the Eurogroup reached on November 26th, 2012 an agreement on a set of new measures for the reduction of Greek public debt to 124.0% of GDP by 2020 and 110.0% of GDP in 2022. This debt path is consistent with the debt sustainability required by the IMF.

Position of the Group

Greek sovereign debt exchange programme

On 21 February 2012 the Euro-area finance ministers agreed on a bailout programme for Greece, including financial assistance from the Official Sector and a voluntary debt exchange agreed with the Private Sector forgiving 53.5% of the face value of Greek debt. All exchanged bonds were derecognized and the new Greek government bonds (nGGBs) recognized at fair value, based on market quotes at the date of recognition.

Following the Eurogroup's decisions on 27 November 2012 and as part of debt reduction measures, the Greek State announced on 3 December 2012 an invitation to eligible holders of nGGBs to submit offers to exchange such securities for six months zero coupon notes to be issued by the European Financial Stability Fund (EFSF). Under its participation to the Greek state's debt buyback program, the Eurobank Ergasias Group submitted for exchange the 100% of its nGGBs portfolio of total face value € 2.3 bn.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Recapitalization Framework and Process

Given the severity of the impact of the Greek Government Bond exchange program (PSI+), on 21 February 2012 the Euro Area finance ministers allocated a total of € 50 bn of the second support program for Greece specifically for the recapitalisation of the Greek banking system. These funds are directed to the Hellenic Financial Stability Fund (HFSF) whose mandate has been extended and enhanced accordingly. € 23 bn of these funds were remitted to Greece in the second quarter of 2012, € 16 bn in December 2012 while the final € 11 bn are expected within next months.

The Bank of Greece, after assessing the business plan and the capital needs of Eurobank has concluded on 19 April 2012 that Eurobank is a viable bank and, on 8 November 2012, notified the Bank that its Tier I capital should increase by € 5,839 million. The Bank, the HFSF and the European Financial Stability Facility ("EFSF") signed on 28 May 2012 and on 21 December 2012 a trilateral presubscription agreement (PSA) for the advance to the Bank of EFSF notes of face value of € 3,970 million and € 1,341 million (total € 5,311 million) as advance payment of its participation in the future share capital increase of the Bank. In addition, HFSF provided to the Bank a commitment letter for additional capital support of € 528 million up to the total level of recapitalisation needs of € 5,839 million. Proforma with the full recapitalisation amount of € 5,839 million, on 31 December 2012 the Group's regulatory capital stands at € 4.4 bn, the Core Tier I capital at € 4.1 bn, its Capital Adequacy ratio at 11.6% and the Core Tier I ratio at 10.8%.

The Group is preparing for a capital raising, whose timing and structure will be finalised with National Bank of Greece (Note 32).

Management of Eurobank Ergasias S.A. has reasonable expectations that the planned recapitalization will be completed successfully in cooperation with the Bank of Greece and the HFSF.

National Bank of Greece S.A. Voluntary Tender Offer (VTO)

On 5 October 2012, the National Bank of Greece (NBG) announced its intention to launch a voluntary exchange offer to acquire all Eurobank's shares offering 58 new shares of NBG for every 100 shares of Eurobank tendered. On 18 February 2013, NBG announced that during the offering's acceptance period for Eurobank's shareholders, 84,35% of Eurobank's shareholders have accepted legally the VTO; thus NBG holds 84,38% of Eurobank's paid in Share Capital. (Note 32)

Further details about the Group could be found in the Parent bank's consolidated financial statements available at www.eurobank.gr.

Position of the Bank

As at 31 December 2012, Eurobank Bulgaria relies on funding predominantly from locally collected deposits, its own capital base and international financial institutions funding. In 2012 the Bank further reduced its net exposure to the Parent bank from BGN 653 million to BGN 545 million (see Note 29). During 2013 the Bank continues its initiative to strengthen and ring-fence its balance sheet from specific risk concentrations and as of the date of signing of these financial statements at least 70% of the Bank's direct exposure to the Parent bank was collateralized by high quality bonds. The Bank's management has no intention to increase the unsecured portion of the exposure to the Parent in the foreseeable future. In 2012 the Bank also signed a Credit Support Annex to the schedule of the ISDA (International Swaps and Derivatives Association ®) agreement with Eurobank Ergasias aiming to mitigate counterparty risk arising from open derivative positions.

(a) Amended and new standards and interpretations effective in 2012 for EU

- IFRS 7, Amendment - Disclosures, Transfers of Financial Assets

(b) Standards and Interpretations issued but not yet effective for EU

- IAS 1, Amendment - Presentation of Items of Other Comprehensive Income (effective 1 January 2013)
- IAS 12, Amendment - Deferred tax: Recovery of Underlying Assets (effective 1 January 2013)

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

A. Basis of preparation (continued)

(b) Standards and Interpretations issued but not yet effective for EU (continued)

- IAS 19, Amendment - Employee Benefits (effective 1 January 2013)
- IAS 27, Amendment - Separate Financial Statements (effective 1 January 2014)
- IAS 28, Amendment - Investments in Associates and Joint Ventures (effective 1 January 2014)
- IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities (effective 1 January 2014)
- IFRS 7, Amendment - Disclosures, Offsetting Financial Assets and Financial Liabilities (effective 1 January 2013)
- IFRS 9, Financial Instruments (effective 1 January 2015, not yet endorsed by EU)
- IFRS 9 and IFRS 7, Amendment - Mandatory Effective Date and Transition Disclosures (effective 1 January 2015, not yet endorsed by EU)
- IFRS 10, Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11, Joint Arrangements (effective 1 January 2014)
- IFRS 12, Disclosure of Interests in Other Entities (effective 1 January 2014)
- IFRS 13, Fair Value Measurement (effective 1 January 2013)
- IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (effective 1 January 2013, not yet endorsed by EU)
- Annual Improvements to IFRSs 2009–2011 Cycle (effective 1 January 2013, not yet endorsed by EU)
- IFRS 10, 12 and 27 Amendments - Investment Entities (effective 1 January 2014, not yet endorsed by EU)

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

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and building, investment property, available-for-sale investment securities, financial assets held at fair value through profit or loss and all derivative contracts.

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

B. Foreign currencies transactions

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). The financial statements are presented in the national currency of Bulgaria, Leva (BGN), which is the Bank’s functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the Central Bank’s exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Such balances are translated at the Central bank’s year-end exchange rates.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

B. Foreign currencies transactions (continued)

At 31 December 2012, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2011: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.6740 (2011: BGN 1 for USD 0.6616).

C. Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period using effective interest rate. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount. When appropriate the Bank uses a shorter amortization period.

This is the period to the next reprising date when the market rates are changed before the expected maturity of the instrument.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

D. Fees and commissions income and expense

Fees and commissions, except for those, which form part of the effective interest rate of the instruments, are generally recognised on an accrual basis.

Commissions and fees relating to foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised on the completion of the underlying transaction.

E. Financial assets

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

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

This category includes financial assets held for trading.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments.

Financial assets held for trading are initially recognised at fair value excluding transaction costs and subsequently re-measured at fair value based on current bid prices at the reporting date. All related realized and unrealized gains and losses are included in net trading income in the period in which they arise. Interest earned whilst holding financial assets held for trading is reported as interest income.

(b) Available-for-sale

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

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

E. Financial assets (continued)

(b) Available-for-sale (continued)

prices. Available-for-sale investments are initially recognised at fair value plus transaction costs and are subsequently re-measured at fair value based on current bid prices or amounts derived from cash flow models. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Bank's right to receive payment is established.

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised at settlement date – which is the date that the asset is delivered to or by the Bank.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques consistent with the specific features of the securities market in Bulgaria.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished − that is, when the obligation is discharged, cancelled or expires.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than: (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

(d) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank sells other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Interest earned whilst holding investment securities is reported as interest income. The Bank assesses its intention and ability to hold to maturity its held-to-maturity investments not only when those financial assets are initially recognised, but also at each subsequent balance sheet date.

F. Sale and repurchase agreements and securities lending

Securities sold subject to repurchase agreement ('repos') are retained in the financial statements as trading securities while the counterparty liability is included in deposits due to other banks, or deposits due to customers, as appropriate. The funds granted under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and is accrued over the life of repo agreements using the effective interest method.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

G. Derivative financial instruments and hedge accounting

Derivatives are financial instruments :

(a) whose value is changed in response to the change in specified interest rate, financial instrument price, foreign exchange rate, index of prices and rates, credit rates or credit index or other variable;

(b) that requires no initial net investment or an initial net investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors;

(c) that are settled at a future date.

Derivative financial instruments including currency swaps, interest rate swaps, currency forwards, forward rate agreements, options and futures are usually not recognised initially on the face of the balance sheet as they are often entered into at no cost (i.e. the net fair value of the receivables and payables is zero). When the net investment is not zero derivatives are initially recognised as financial instruments at fair value. The fair value is determined by quoted prices, discounted cash flows models and other valuation techniques. The positive net fair value is recognised as asset while the negative is recognised as liability. The changes in the fair value of derivatives are included in the income statement.

Fair value hedge:

Hedge accounting is used for derivatives designated as hedges of the fair value of recognised assets (fair value hedges) provided certain criteria are met.

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

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in ‘net trading income’. Interest expense and interest income from hedging derivatives and hedged assets are recognised within ‘interest income’ and ‘interest expense’ in the income statement. Any ineffectiveness is recorded in ‘net trading income’.
If hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged item for which the effective interest method is not used remains in other comprehensive income until the disposal of the equity security.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

H. Impairment of financial assets

(a) Assets carried at amortized cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral and
- Downgrading below investment grade level.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

Notes to the financial statements (continued)

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement in impairment charge for credit losses.

The loan loss identification period is between three and twelve months.

(b) Assets classified as available for sale

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the financial asset below its cost is considered in determining whether the assets are impaired.

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

I. Property, plant and equipment

The Bank recognizes the cost of an item of property, plant and equipment as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The cost of the property, plant and equipment comprises purchase price, including import duties and non-refundable purchase taxes and any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost is the cash or cash equivalent paid or the fair value of other consideration given to acquire the assets.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

The Bank includes the subsequent costs in the asset's carrying amount or recognizes as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs, maintenance and renewals are charged to the income statement during the financial period in which they are incurred.

After initial recognition the Bank measures the land and building at fair value. The fair value of land and buildings is determined from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The main valuation methods include:

- market prices analogues (where assets are compared to those similar of nature offered on the market):
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Revaluation of property is performed once per 5 years. Periodically a review for impairment (valuation of all properties) is performed. The last valuation of Bank properties was done in December 2011.

The accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated as Revaluations surplus. However the increase shall be recognised in profit and loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit and loss. If an asset's carrying amount is decreased as a result of revaluation, the decrease is recognised firstly in other comprehensive income by reducing the revaluation surplus and subsequently in profit and loss if credit balances in revaluation surplus are not sufficient.

With the exception of the land, the Bank depreciates all property, plant and equipment. The depreciation charge is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings -50 years
- Leasehold improvements - the life of the lease, or useful life if shorter
- Computer hardware and software- 4-10 years
- Other furniture and equipment - 4-20 years
- Motor vehicles- 5 years.

The carrying amount of an item of property, plant and equipment is derecognised:

(a) on disposal
(b) when no future economic benefits are expected from its use or disposal.

The gain or loss from derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. The Bank does not classify the gains as revenue. The gain or loss from derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

J. Intangible assets

Costs that are directly associated with identifiable non-monetary asset without physical substance controlled by the Bank and which will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Expenditure which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original costs of the asset. Costs associated with maintaining intangible assets are recognised as an expense as incurred.

Costs incurred in internal development of intangible assets when meet the recognition criterion is recognized as intangible asset. The cost of development activities is capitalised when it is probable that the Bank will obtain economic benefits from the use of the asset and the cost can be reliably measured.

The costs recognised include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc).

Intangible assets are amortized using the straight-line method over their useful lives (between 4 and 10 years as stated above).

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An intangible asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

K. Borrowings, including debt securities in issue

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

L. Investment property

Investment property is defined as property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for: (a) use in the production of supply of goods or services or for administrative purposes; or (b) sale in the ordinary course of business.

Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Bank uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. Changes in fair values are recorded in the income statement as part of other income/expense.

M. Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than 90 days to maturity from the date of acquisition including: cash and non-restricted balances with central banks, amounts due from other banks and short-term government securities. Investments are treated or qualify as cash equivalents only when they have a short maturity of 90 days or less from the date of acquisition.

N. Operating leases

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

O. Current tax and deferred income tax

Taxation has been provided for in the financial statements in accordance with Bulgarian legislation currently in force. The charge for taxation in the income statement for the year comprises current tax and changes in deferred tax. Current tax is calculated on the basis of the taxable profit for the year, using the tax rates enacted at the balance sheet date. Income tax payable on profits, based on the applicable tax law is recognised as an expense in the period in which profits arise. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases, the difference on balance sheet provision expenses according to the local and IFRS requirements and provisions for untaken annual leaves. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized.

P. Employee benefits

(a) Social, pension and health funds

The Bank is obliged by the current Bulgarian legislation to make fixed contribution on behalf of the employees to a social fund operated by the Government. All those payments/liabilities are recognised as an expense in the period to which those relate.

(b) Retirement benefit obligations

In accordance with article 222, Para. 3 of the Bulgarian Labour Code, in the event of termination of a labour contract after the employee has reached the lawfully required retirement age, regardless of the reason for the termination, the employee is entitled to compensation as follows: 2 gross monthly salaries in all cases and 6 gross monthly salaries if the employee has been engaged with the Bank for at least 10 years.

At the end of every reporting period the Bank estimates and recognizes provisions for its retirement benefit obligations. In calculating the provision the Bank estimates the present value of its future retirement benefit obligations considering future salary increases and the probability of the employees retiring while employed in the Bank. All changes in the retirement provisions are recognised in the profit and loss.

Q. Provisions

Provisions for restructuring costs and legal claims are recognised when: the bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination of rent and other contracts, consultancy and audit fees, employees' payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

R. Dividends

Dividends are recognised as a liability when authorized by the General Assembly of the Shareholders and are deducted from equity. No dividends have been distributed for the last years according to the long-term strategy of the Bank.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

S. Offsetting

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

T. Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less cumulative amortization recognised already in the income statement on a straight line basis over the life of the guarantee and the best estimate of the expenditure required settling any financial obligation arising at the balance sheet date in accordance with IAS 37. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management.

Any increase in the liability relating to guarantees is taken to the income statement.

U. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2011.

V. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in the markets and economic conditions.

Risk management policy of the Bank is formulated by the Risk Committee and the Risk Manager. The practice of the Parent Company as well as the international best practices is followed through well-defined internal processes and functions, as well as independent reviews.

The risk management policy reflects the Bank's objectives. It is therefore not intended that large risk positions are maintained solely to increase short-term profitability. The objective is to achieve a leading position on the Bulgarian market and to provide customers and counterparties of the Bank with a first class service, and in the same time to increase the profit for the shareholders, through minimizing undertaken risks and effectively controlling the Bank's expansion.

The adequacy of internal control systems is evaluated by Internal Audit functions. Risk functions are managed by the Bank's Risk Division. The Bank's aim is to ensure independence and compliance through different levels of audit by its Internal Auditors and Eurobank Group's Internal Auditors and by regulatory authorities in Bulgaria and Greece.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

The four general areas of risk management by the Bank are credit risk, market risk, operational risk and liquidity risk. The activity of Risk division and all risk related policies and procedures are in the process of full alignment with Eurobank Group risk guidelines and are controlled and guided by the Risk unit of the Parent company. The Chief Risk Officer of the Bank, heading Risk Division has a direct reporting line to the Risk Executive of the Parent company and a dotted reporting line to the CEO of the Bank. The Supervisory Board of the Bank has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring all the quantitative and qualitative aspects of credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The impact of the financial crisis is still affecting the activity of the Bank. Management believes it is taking all the necessary measures to support the sustainability and growth of the Bank's business in the current circumstances.

The Bank supports its borrowers by offering various restructuring and renegotiation solutions, which improve their ability to repay the amounts owed. The respective impact on management's cash flow forecasts and assessment of the impairment of financial assets is decreasing. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in their impairment assessments.
The amount of provision for impaired loans is based on management's appraisals of these assets at the balance sheet date after taking into consideration the cash flows that may result from foreclosure less costs for obtaining and collateral’s sale.

1. Credit risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank’s business; management therefore carefully manages its exposures to credit risk. Credit exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities and other bills into the Bank’s asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as loan commitments, and counterparty risk in over-the-counter derivative transactions.

To address credit risk the Bank has established a complex organization structure allocating responsibilities for sales, administration, approval and control of credit activities to various specialist divisions and committees. Credit operations are governed by a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

1.1. Credit risk measurement

(a) Loans and advances

In measuring credit risk of loan and advances to customers and to banks at a counterparty level, the Bank reflects three components:

(a) ‘probability of default’ by the client or counterparty on its contractual obligations;

(b) current exposures to the counterparty and its likely future development, from which the Bank derives the ‘exposure at default’ and

(c) likely recovery ratio on the defaulted obligations (the ‘loss given default’).

The Bank manages the credit risk of loans and advances to customers and to banks through a comprehensive set of policies and procedures to ensure that all aspects of credit risk are adequately covered.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.1. Credit risk measurement (continued)

(a) Loans and advances (continued)

The Bank uses rating systems and slotting methodology to assess the creditworthiness of its corporate borrowers. The rating systems aggregate quantitative and qualitative information on individual obligors to perform the assessment of their creditworthiness and determine the credit rating for the obligor. It takes into account the following criteria:

- the company's past and forecasted financial performance
- its cash flows
- industry sector trends
- qualitative assessment of management
- the company's status, market and industry structural factors

The Bank assesses the credit quality of the wholesale loans on a case-by-case basis using the borrower's credit rating and based on a profound analysis of a set of qualitative and quantitative factors. The borrower's rating could be within a rating scale from 1 to 11. The Bank categorized as neither past due nor impaired wholesale loans which borrower's credit rating is from 1 to 6 and with zero days past due as loans bearing satisfactory risk and these with rating 7 under watch list. The overdue loans, which borrower's ratings are from 1 to 6 are presented as past due but not impaired loans. The wholesale loans to customers with credit ratings from 8 to 11 are considered individually impaired loans (loans to borrowers with rating 8 and 9 are categorized as potentially problematic and those in10 and 11 as loss making).

Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing, etc. Quantitative factors are those that refer to a set of ratios (e.g. profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to FS).

The classification of retail clients is based on the full delinquency analysis by group according to which loans with zero overdue days are presented in category satisfactory risk and the rest in category past due but not impaired or impaired. The grouping is based on the common characteristics of the respective products, the similar risks they bear and the type of collateral that secures them. In case that a borrower is client to more than one of the above mentioned groups, the classification of each single retail loan of one and the same retail client should be done independently from the other loans of the same customer.

(b) Debt securities

For debt securities, external ratings from credit rating agencies such as Standard & Poor's, Moody's and Fitch are used by the Bank for managing the credit risk exposures, supplemented with proprietary credit analysis where external ratings are unavailable. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.2. Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and groups, and to industries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. The exposure to any one borrower including banks and non-banking financial institutions is further restricted by sub limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on a daily basis.

The exposure to any borrower is restricted by limits covering on- and/or off- balance sheet. Off-balance sheet facilities to customers include foreign exchange and interest rate derivatives, letters of credit, letter of guarantee and other financial instruments. The credit equivalent amounts for off-balance sheet facilities are determined in accordance with Bulgarian National Bank, Eurobank Group and Market Risk Unit regulations and guidelines. Overall customer exposure arising from all transactions and facilities is aggregated for monitoring utilization of the credit facility limit.

The Bank is active in the corporate and retail lending markets. Credit risk is well spread over a diversity of personal and commercial customers. Exposures to credit risk are managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits where appropriate.
Some other specific control and mitigation measures are outlined below:

(a) Collaterals

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The main collateral types for loans and advances that the Bank accepts are:

- Mortgages over residential properties;
- Pledge on business assets such as premises, inventory and accounts receivable;
- Pledge on financial instruments such as debt securities and equities
- Issued guarantees.

Long-term financing and lending to corporate entities are generally secured. In order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities are usually unsecured, with the exception of some corporate bonds, asset-backed securities, or similar instruments, secured by portfolios of financial instruments.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.2. Risk limit control and mitigation policies (continued)

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favorable to the Bank (i.e., assets where their fair value is positive), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. In most cases collateral or other security is obtained for credit risk exposures arising from derivative deals with non-bank (corporate or other) counterparties. Further details of the Bank's derivative instruments are provided in Note 20.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities.

(c) Credit related commitments

Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized with cash deposits or other collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of the loan. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. The Bank monitors the term to maturity of credit commitments because long-term commitments generally have higher level of credit risk than short-term commitments.

1.3. Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents worst case scenario of credit risk exposure to the Bank as at 31 December 2012 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out below are based on net carrying amounts as reported in the balance sheet.

As shown below 95% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2011: 96%); 3% represents investments in debt securities (2011: 3%).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.3. Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Maximum exposure

	As at 31 December	
	2012	**2011**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	667,614	848,003
Loans and advances to customers:		
- Mortgages	1,180,598	987,443
- Consumer lending (including credit cards)	683,713	742,475
- Small Business lending	746,132	792,466
- Corporate lending	1,424,658	1,632,267
Trading assets - debt securities	5,502	469
Derivative financial instruments	7,049	16,087
Investment securities- available-for-sale-debt securities	167,603	145,943
Other assets	20,447	7,126
Credit risk exposures relating to off-balance sheet items are as follows:		
Financial guarantees	66,399	72,207
Letters of credit	16,752	20,502
Loan commitments and other credit related liabilities	508,069	567,404
Total	**5,494,536**	**5,832,392**

1.4. Loans and advances

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2012**	**2011**
Neither past due nor impaired	3,065,408	2,897,924
Past due but not impaired	595,527	870,033
Impaired	693,010	631,556
Gross	**4,353,945**	**4,399,513**
Less: allowance for impairment	(318,844)	(244,862)
Net	**4,035,101**	**4,154,651**
Included in gross loans and advances are:		
Past due more than 90 days	685,388	698,957
Of which non-performing loans	586,611	425,530

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

The total impairment provision for loans and advances is BGN 318,844 thousand (2011: BGN 244,862 thousand) of which BGN 107,682 thousand (2011: BGN 106,258 thousand) represents the individually impaired loans provision and the remaining amount of BGN 211,162 thousand (2011: BGN 138,604 thousand) represents the portfolio provision. Further information of the impairment allowance for loans and advances to customers is provided in Note 13.During 2012, the Bank's total net loans and advances decreased by 2.9 %. In order to minimize the potential increase of credit risk exposure, the Bank has focused more on the business with large corporate enterprises with good credit rating or retail customers providing sufficient collateral.

Another measure was to increase high quality Mortgage loans through purchase of BGN 167,688 thousand (2011: BGN 14,092 thousand) loans from BRS, which was funded through sub participation to BRS of BGN 184,383 thousand Wholesale loans. Sub-participated corporate loan portfolio includes one real estate project which value is assessed upon full completion (discounted at the respective discount rate) while at the day of the transfer it is partially finished. Consideration given for the said project differs by BGN 3,926 thousand from already constructed part.

In 2012 net loans and advances was affected by BGN 95,687 thousand (2011: BGN 150,371 thousand) IMO recoveries received on realized loan collaterals.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired at 31 December 2012 can be assessed by reference to the internal standard grading system (see 1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2012**	**As at 31 December 2011**
Mortgage Lending	949,638	815,965
Wholesale	1,020,891	950,161
Consumer Lending	553,040	602,945
SBB	464,652	474,909
Total Satisfactory risk	**2,988,221**	**2,843,980**
Watch list (wholesale**)**	77,187	53,944

(b) Loans past due but not impaired

31 December 2012	**Consumer Lending**	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	66,175	79,883	51,290	123,299	**320,647**
Past due 30 - 89 days	37,022	58,939	58,113	85,994	**240,068**
Past due 90 - 179 days	-	20,940	-	13,577	**34,517**
Past due less than 1 year	-	-	-	295	**295**
Total	**103,197**	**159,762**	**109,403**	**223,165**	**595,527**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(b) Loans past due but not impaired (continued)

31 December 2011	Consumer Lending	Mortgages	Small Business Lending	Corporate Lending	Total
Past due up to 29 days	90,524	68,028	123,223	203,987	**485,762**
Past due 30 - 89 days	28,568	49,897	49,605	147,093	**275,163**
Past due 90 - 179 days	-	11,096	-	96,763	**107,859**
Past due less than 1 year	-	-	-	1,249	**1,249**
Total	**119,092**	**129,021**	**172,828**	**449,092**	**870,033**

(c) Impaired loans and advances collectively assessed

For collectively assessed accounts, loans are treated as impaired based on historical loss data for groups of loans with similar characteristics. The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point 1.1. Not all loans collectively assessed for impairment are considered impaired. Based on past experience, consumer loans less than 90 days past due and mortgage loans less than 180 days past due are not considered impaired, unless specific information indicates to the contrary. Consumer loans over 90 days past due and mortgage loans over 180 days past due are considered as having impairment indicators and are collectively assessed for impairment.

31 December 2012	Consumer lending	Mortgages	SBB	Total
Collectively assessed for impairment	117,479	102,535	98,998	319,012

31 December 2011	Consumer lending	Mortgages	SBB	Total
Collectively assessed for impairment	82,002	62,568	64,530	209,100

Classification of retail clients is based on the full delinquency analysis by groups. The grouping is based on common characteristics of the respective products, similar risks they bear and the type of collateral that secures them.

(d) Loans and advances individually impaired

For individually assessed accounts, loans are treated as impaired as soon as there is objective evidence that an impairment loss has been incurred. The criteria used by the Bank to determine that there is objective evidence of impairment include:

– known cash flow difficulties experienced by the borrower
– overdue contractual payments of either principal or interest
– breach of loan covenants or conditions;
– the probability that the borrower will enter bankruptcy or other financial reorganization;
– a downgrading in credit rating by an external credit rating agency

Further information on impaired loans is provided below in "Impairment assessment"**.**

The criteria used by the Bank to determine that there is objective evidence of impairment are provided in point 1.1.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.4. Loans and advances (continued)

(d) Loans and advances individually impaired (continued)

31 December 2012	**Small Business Lending**	**Corporate Lending**	**Total**
Individually impaired loans	173,986	200,012	373,998
31 December 2011	**Small Business Lending**	**Corporate Lending**	**Total**
Individually impaired loans	148,744	273,712	422,456

Wholesale borrowers are rated on a case-by-case basis following the Internal Credit Rating System. The credit rating is based on a profound analysis of qualitative and quantitative factors. Qualitative factors are those that deal with the borrower's management, industry, operating conditions, the market sector in which the borrower operates, securities, loan servicing etc. Quantitative factors are those that refer to a set of ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to the financial statements etc.)
Small business lending loans over 90 days overdue are assessed on a case-by-case basis, following the bank's provisioning policy.

The corporate and small business loans as at 31 December 2012 are covered with collaterals at 59% and 82% respectively (2011: 58% and 81% respectively). Consumer loans are not collateralized, except for car loans where the Bank retains ownership until full loan repayment. Mortgage loans are fully collateralized.

The fair value of collaterals (cash deposits and cash equivalent, real estate, securities, receivables and bank guarantees) used in collateral coverage ratio is determined by local certified valuers and represents value realizable by the legal owners of the assets. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans. Despite difficulties in enforcing repossession of collateral, the Bank's management will vigorously pursue the outstanding debts with all possible means at their disposal.

1.5. Debt securities and Loans and advances to banks

The table below presents an analysis of debt securities and banks placements by rating agency designation, based on the credit assessments of nominated External Credit Assessment Institutions:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities and Loans and advances to banks (continued)

31 December 2012

Rating	Trading securities	Investment securities, available for sale	Loans and advances to banks	Total
AAA	-	-	-	-
AA- to AA+	-	-	46	**46**
A- to A+	-	-	6,428	**6,428**
BBB- to BBB+	5,502	131,490	10,575	**147,567**
BB- to BB+	-	-	-	-
Lower than BB-	-	3,820	645,545	**649,365**
Unrated	-	32,293	5,020	**37,313**
Total	**5,502**	**167,603**	**667,614**	**840,719**

Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 11,344 thousand (2011: BGN 14,778 thousand). The impairment provisions as of end of 2012 amounted to BGN 5,429 thousand (2011: BGN 2,798 thousand).

31 December 2011

Rating	Trading securities	Investment securities, available for sale	Loans and advances to banks	Total
AAA	-	-	-	-
AA- to AA+	-	-	66	**66**
A- to A+	-	-	8,001	**8,001**
BBB- to BBB+	469	101,433	9,249	**111,151**
BB- to BB+	-	-	-	-
Lower than BB-	-	3,237	821,898	**825,135**
Unrated	-	41,273	8,789	**50,062**
Total	**469**	**145,943**	**848,003**	**994,415**

1.6. Repossessed collateral

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within other assets. The balances of the repossessed collaterals as at year-end are as follows:

Nature of assets	2012	2011
Commercial property	4,957	695
Equipment	-	-
Residential property	2,062	2,062
Land	632	154
Total	**7,651**	**2,911**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

1. Credit risk (continued)

1.7. Concentration of risks of financial assets with credit risk

(a) Geographical sectors

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

	Bulgaria	Rest of Europe	Other countries	Total
Loans and advances to banks	15,000	652,607	7	667,614
Trading assets – debt securities	5,502	-	-	5,502
Loans and advances to customers:				
- Mortgages	1,177,482	1,770	1,346	1,180,598
- Consumer lending incl. credit cards	682,902	677	134	683,713
-Small business lending	746,132	-	-	746,132
-Corporate lending	1,422,677	1,981	-	1,424,658
Investment debt securities – AFS	159,211	8,392	-	167,603
Derivative financial instruments	2,385	4,535	129	7,049
Other assets	20,447	-	-	20,447
31 December 2012	**4,231,738**	**669,962**	**1,616**	**4,903,316**
31 December 2011	**4,315,534**	**855,865**	**880**	**5,172,279**

(b) Industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the industry sectors of our counterparties.

	Commerce and services	Private individuals	Manufac-turing	Construc-tion	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	667,614	-	**667,614**
Trading assets-debt securities	-	-	-	-	5,502	-	-	**5,502**
Loans and advances to customers:								
- Mortgages	-	1,180,598	-	-	-	-	-	**1,180,598**
-Consumer lending incl. credit cards	-	683,713	-	-	-	-	-	**683,713**
-Small business lending	450,660	3,749	131,135	79,070	-	-	81,518	**746,132**
-Corporate lending	663,360	-	360,035	144,110	2,937	15,694	238,522	**1,424,658**
Investment debt securities – AFS	10,215	-	17,211	1,003	135,310	2,478	1,386	**167,603**
Derivative financial instruments	139	-	1,035	-	-	5,314	561	**7,049**
Other assets	-	-	-	-	-	20,447	-	20,447
31 December 2012	**1,124,374**	**1,868,060**	**509,416**	**224,183**	**143,749**	**711,547**	**321,987**	**4,903,316**
31 December 2011	**1,214,230**	**1,735,014**	**454,828**	**301,828**	**108,525**	**903,469**	**454,385**	**5,172,279**

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk

The Bank takes on exposures to market risk, which is the risk of potential financial loss due to adverse changes in market variables such as interest rates, equity prices or foreign exchange rates. The fair value or future cash flows of a financial instrument may fluctuate because of changes in market variables.

The Bank is exposed to the following main types of market risks:

- interest rate risk;
- foreign exchange risk;
- equity price risk;

Interest rate risk is the risk of potential loss from adverse changes in interest rates and includes re-pricing risk, yield curve risk, basis risk, spread risk, volatility risk.

Foreign exchange risk is the risk of loss due to an adverse change in foreign currency exchange rates against the base currency.

The equity price risk is the risk of potential loss from adverse changes in equity prices. It includes outright risk, volatility risk, spread risk and dividend risk.

Within each type of market risk, there are a number of specific sources of risk (risk factors), to which the Bank may or may not be exposed at any point in time.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market Risk Policy, developed in line with the Group Market Risk Guidelines. The objectives of the Bank's Market Risk Policy are to:

- set the framework and minimum standard for market risk control and management throughout the Bank;
- enable compliance with local rules;
- be duly compliant with Group Guidelines;
- enable compliance with the requirements of local and foreign regulators;
- establish a framework that will eventually allow the Bank to gain competitive advantage through risk-based decision-making;

The Market Risk Policy is further supported by Market Risk Procedures which set out the detailed standards and requirements necessary to implement the Policy. The Policy and Procedures apply to the control of market risks, arising on all of the Bank's assets, liabilities and off-balance sheet positions, therefore covering both Treasury and non-Treasury activities that run market risk.

The Bank's Market Risk Policy is approved by the Board of Directors of Eurobank Bulgaria AD and maintained by Market Risk Department. The Market Risk Department reviews the policy at least annually and submits changes to the Board for approval. The Market Risk Policy is in compliance with the Group's Risk Guidelines pertaining to market risk.

The market risk control and supervision framework set by the Bank aims to:

- protect the Bank against unforeseen market losses and contribute to earnings stability through the independent identification, assessment and understanding of the market risks inherent in the business;

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

- help align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks;
- develop transparent, objective and consistent market risk information as a basis for sound decision making;
- establish a structure that will allow the Bank to link business strategy and operations with the objectives for risk control and supervision;

The Bank's market risk appetite is the size of the potential unexpected loss that it is willing to absorb because of adverse changes in market variables. It is related to its ability to absorb those losses, which depends on the Bank's capital and reserves; the potential losses arising from other, non-market, risks; and the regulatory capital, which is required to support the business. The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks. The market risk appetite is determined by the Bank's Risk Committee, which approves all risk limits at Bank level. These limits are also part of the global limit structure of the Group and are ratified at Group level. The Bank's market risk appetite is also expressed through characteristics such as different types of allowed markets, products, countries, counterparties and currencies.

2.1. Market risk measurement techniques

The Bank ensures that all material positions that are exposed to market risks are included within the market risk measurement system. At a minimum, the market risk measurement system should measure risk arising from exposure to the following specific market risk factors, i.e. the specific market prices or rates that affect the value of positions:

- foreign exchange rates
- interest rates and
- equity prices.

Currently market risk measurement is done using notional exposure data and notional level limits, supported by regular stress testing. The Bank is not using VaR-based limits. Upon senior management decision in the future the Bank may introduce additional value-at-risk analysis.

2.2. Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The major part of the Bank's FX position is against EUR, while the BGN/EUR currency rate remains pegged at 1.95583 as part of the Currency Board arrangements. The Management sets limits on the open positions in individual currencies as well as on the aggregate open positions for both overnight and intra-day positions, and these limits are monitored on a daily basis.

2.3. Sensitivity of assets and liabilities

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. The Management reviews the interest rate gaps and the interest rate mismatch and the necessary reprising that may be undertaken on a monthly basis.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

The Bank is exposed to the fluctuations of the different types of market risk. The sensitivity analysis below illustrates the potential impact on the income statement and equity from “reasonable possible shifts", based on the market dynamics and economic environment that have been observed during the reporting period.

31 December 2012

	Total Effect on Economic Value	Direct P&L Effect	Direct Equity Effect	Banking Book Effect
Interest Rate				
+250 bps parallel shift local currency +200 bps parallel shift other currencies	**12,902**	(5,379)	(2,973)	21,254
-250 bps parallel shift local currency -50 bps parallel shift other currencies	**(13,106)**	2,402	743	(16,251)
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(419)**	(221)	(198)	-
+25% equity price increase across the board	**419**	221	198	-
Foreign exchange				
-25% depreciation of local currency	**749**	749	-	-
20% appreciation of local currency	**(599)**	(599)	-	-

31 December 2011

	Total Effect on Economic Value	Direct P&L Effect	Direct Equity Effect	Banking Book Effect
Interest Rate				
+250 bps parallel shift local currency +200 bps parallel shift other currencies	**22,429**	(4,842)	(699)	27,970
-250 bps parallel shift local currency -50 bps parallel shift other currencies	**(16,748)**	1,467	175	(18,390)
Equities / Equity Indices / Mutual Funds				
-25% equity price drop across the board	**(666)**	(245)	(421)	-
+25% equity price increase across the board	**666**	245	421	-
Foreign exchange				
-25% depreciation of local currency	**(189)**	(189)	-	-
20% appreciation of local currency	**151**	151	-	-

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.3. Sensitivity of assets and liabilities (continued)

Sensitivity to changes to the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated and presented in the above table. The calculation parameters used have been determined based on the market environment and the dynamics observed during the last couple of years and represent reasonable possible shifts in the market variables.

1. Foreign exchange risk sensitivity has been calculated directly on the total net open position (excluding Euro) of the Bank as a 25% depreciation / 20% appreciation of the local currency against all foreign currencies (except Euro), which mainly include USD, CHF and GBP. The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

2. Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value. The results have been allocated to three columns depending on the accounting treatment of each position:

- Direct P&L effect - for items with revaluation reflected in the income statement (trading portfolio securities and derivatives);
- Direct equity effect - for items with revaluation that affects the equity reserves (AFS securities);
- Banking book effect - for items with no accounting revaluation, the effect is through changes in the economic value of capital.

The sum of the three columns gives the total effect on the economic value of the Bank.

The following parallel yield curve shifts have been applied:

For BGN: +250 bps / -250 bps;
For all other currencies: +200 bps / -50 bps;

3. Equity price risk sensitivity has been calculated by applying a 25% drop / 25% increase in equity prices across the board.

2.4. Fair values of financial assets and liabilities not measured at fair value

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price. The estimated fair values of financial instruments have been determined by the Bank using available market information, where it exists, and appropriate commonly accepted valuation methodologies.

a) Due from other banks

Due from other banks includes repurchase agreements, inter-bank placements and items in the course of collection. The funds are short term and the fair value approximates their carrying amount.

b) *Loans and advances to customers*

Loans and advances to customers: for loans and advances to customers quoted market prices are not available as there are no active markets where these instruments are traded. The fair value is determined using generally accepted valuation techniques with current market parameters. The fair value is estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates (note 13).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities not measured at fair value (continued)

c) Due to customers

The Bank has the contractual right to change interest rates on deposits contracts after a certain period from the origination date of the contract. For these contracts the Bank considered the date, when it is entitled to change interest rates, as a contractual reprising date. Therefore the fair value of due to customers approximates their carrying amount.

d) Other borrowed funds

The fair value of corporate bonds issued by the Bank and the long term debts is estimated based on the interest rates as at the end of the year. Borrowed funds carry predominantly floating rates and due to the interest rate reprising carrying value is not materially different from their fair value.

2.5. Financial instruments measured at fair value

All financial instruments that are measured at fair value are categorised into one of the three fair value hierarchy levels at year-end based on whether the inputs to their fair values are observable or non-observable.

Level 1 - Quoted prices in active markets for identical assets or liabilities. Quoted prices must be readily and regularly available from an exchange or active index/market location and prices must represent actual and regularly occurring market transactions on an arm's length basis. This level includes listed equity securities, debt instruments and exchange traded derivatives.

Level 2 – Financial instruments measured using valuation techniques where all significant inputs are market observable. This level includes OTC derivative contracts and structured assets and liabilities.

Level 3 - Financial instruments measured using valuation techniques with significant non observable inputs.

As of 31 December 2012, the Bank did not have any level 3 financial assets or liabilities.

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	5,502	-	-	5,502
-Equity securities	1,105	-	-	1,105
-Derivative financial instruments	-	7,049	-	7,049
Available-for-sale investment securities				
-Investment securities - debt	135,310	32,293	-	167,603
-Investment securities - equity	988	6,308	-	7,296
Total financial assets	**142,905**	**45,650**	**-**	**188,555**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	14,274	-	14,274
Total financial liabilities	**-**	**14,274**	**-**	**14,274**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

2. Market risk (continued)

2.5. Financial instruments measured at fair value (continued)

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	469	-	-	469
-Equity securities	981	-	-	981
-Derivative financial instruments	-	16,087	-	16,087
Available-for-sale investment securities				
-Investment securities - debt	104,670	41,273	-	145,943
-Investment securities - equity	1,628	8,162	-	9,790
Total financial assets	**107,748**	**65,522**	-	**173,270**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	23,152	-	23,152
Total financial liabilities	-	**23,152**	-	**23,152**

3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

3.1. Liquidity risk management process

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place.

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise the MB for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank.

Regarding Assets and Liabilities management, ALCO shall regularly review the following:

- Structure, current state and trends of the assets and liabilities of the Bank;
- Interest income margin generated on assets and cost of funding base (deposit base and external funding);
- Interest rates offered by main competitors and market shares;
- Capital Adequacy.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.1. Liquidity risk management process (continued)

Regarding Liquidity management, ALCO shall regularly review the following:

- Liquidity Ratios and liquidity buffers as defined by BNB;
- Internal Liquidity ratios;
- Liquid buffers;
- Sources and uses of Liquidity and Liquidity Projections;
- Liquidity Stress tests, reflecting the changes on the asset-liability maturity tables in different stress scenarios.

On a strategic level ALCO shall manage the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations.

The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity is assigned to the Head of Capital Markets Division. If necessary, ALCO can be directly engaged in the liquidity management via activating all resources of the Bank to meet all payment obligations.

Market Risk Department holds an important position in monitoring the market risks and in producing reports to the senior management for observation of risks. Market Risk Department directly reports the utilization of limits/target ratios to the senior management.

3.2. Cash flows

The table below presents the cash flows receivables and payable by the Bank under financial assets/ liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows for the year 2012 and 2011. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2012	**Gross nominal inflow/ outflow**	**Less than 1 month**	**1-3 months**	**3 -12 months**	**1-5 years**	**More than 5 years**
Financial liabilities						
Non-derivative liabilities	***4,906,014***	***1,910,415***	***712,106***	***2,000,954***	***243,618***	***38,921***
Due to other banks	105,696	105,696	-	-	-	-
Due to customers	4,473,271	1,762,079	710,236	1,952,179	48,777	-
Debt issued and other borrowed funds	296,304	11,897	1,870	48,775	194,841	38,921
Other liabilities	30,743	30,743	-	-	-	-
Derivative financial instruments	***1,815,995***	***526,541***	***1,272,026***	***6,961***	***10,213***	***254***
Outflows from gross and net settled	1,815,995	526,541	1,272,026	6,961	10,213	254
Total liabilities (contractual maturity)	**6,722,009**	**2,436,956**	**1,984,132**	**2,007,915**	**253,831**	**39,175**
Total assets (contractual maturity)	**8,719,961**	**2,766,917**	**1,432,293**	**462,211**	**2,094,369**	**1,964,171**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.2. Cash flows (continued)

As at 31 December 2011	Gross nominal inflow/ outflow	Less than 1 month	1-3 months	3 -12 months	1-5 years	More than 5 years
Financial liabilities						
Non-derivative liabilities	***5,267,009***	***2,037,956***	***589,488***	***2,184,495***	***306,041***	***149,029***
Due to other banks	92,574	77,008	173	15,393	-	-
Due to customers	4,778,036	1,925,795	547,879	2,136,520	167,842	-
Debt issued and other borrowed funds	373,143	11,897	41,436	32,582	138,199	149,029
Other liabilities	23,256	23,256	-	-	-	-
Derivative financial instruments	***1,977,370***	***1,711,172***	***85,339***	***116,530***	***64,111***	***218***
Outflows from gross and net settled	1,977,370	1,711,172	85,339	116,530	64,111	218
Total liabilities (contractual maturity)	**7,244,379**	**3,749,128**	**674,827**	**2,301,025**	**370,152**	**149,247**
Total assets (contractual maturity)	**9,354,978**	**4,348,805**	**222,472**	**635,906**	**2,137,092**	**2,010,703**

3.3. Off-balance sheet items

(a) *Loan commitments*

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities, are summarised in the table below:

(b) *Financial guarantees and other financial facilities.*

Financial guarantees are included below, based on the earliest contractual maturity date.

(c) *Operating lease commitments*

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are summarized in the table below.

(d) *Capital commitments*

Capital commitments for the acquisition of buildings and equipment are summarized in the table below.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

3. Liquidity risk (continued)

3.3. Off-balance sheet items (continued)

At 31 December 2012	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	67,642	12,490	3,019	**83,151**
Commitments:				
- Undrawn loan commitments	424,153	31,442	52,474	**508,069**
- Capital expenditure	1,752	-	-	**1,752**
- Operating lease commitments	8,775	1,056	-	9,831

At 31 December 2011	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	45,669	27,295	19,745	**92,709**
Commitments:				
- Undrawn loan commitments	473,515	28,677	65,212	**567,404**
- Capital expenditure	554	-	-	**554**
- Operating lease commitments	13,590	10,691	2,090	**26,371**

4. Capital management

The Bank's Management objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bulgarian National Bank (Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of BGN 10,000 thousand and (b) maintain a ratio of total regulatory capital to the risk-weighted asset of 12%.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

V. Financial risk management (continued)

4. Capital management (continued)

Regulatory capital consists of Tier I capital, which includes shareholders' ordinary equity, „Reserve" fund, retained earnings from previous year. Deductions of Tier I capital include intangible assets and unrealized loss from available for sale financial instruments. Tier II capital includes subordinated debt and revaluation reserves for the real estate, occupied by the Bank.

The amount of the specific provisions under the Bulgarian National bank' Regulation No. 9 on the evaluation and classification of risk exposures of banks and the allocation of provisions to cover credit risk is reduced at 50% from Tier I and 50% at Tier II capital.

Tier-two capital cannot exceed 50% of tier-one capital.

The risk-weighted assets are measured by means of a hierarchy of five risk weights classified according to the nature of − and reflecting an estimate of credit, market and other risks associated with − each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarizes the composition of regulatory capital and the Capital adequacy ratio of the Bank for the years ended 31 December. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.
Numerous credit risk management measures took place during 2012 year, which explain CAD ratio year-on-year improvement (see Note 13).

	2012	**2011**
Tier 1 capital		
Share capital	452,753	452,753
Reserves	333,567	326,117
Revaluation reserve of financial assets available for sale	(5,013)	(10,145)
Less:		
Intangible assets	(31,826)	(30,730)
Specific provisions under Reg.9	(114,781)	(115,752)
Total qualifying Tier 1 capital	**634,700**	**622,243**
Tier 2 capital		
Long term debt	122,792	122,792
Revaluation reserve of property owned by the Bank	2,374	2,376
Less:		
Specific provisions under Reg.9	(114,781)	(115,752)
Total qualifying Tier 2 capital	**10,385**	**9,416**
Risk-weighted assets		
On-balance sheet	3,642,904	3,924,636
Off-balance sheet	138,096	165,420
Total risk-weighted assets	**3,781,000**	**4,090,056**
Basel ratio	**17.06%**	**15.44%**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

W. Critical accounting estimates and judgments in applying accounting policy

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

Impairment of available- for-sale equity investments
The Bank determines that available-for-sale equity investments are impaired when there has been a significant (drop down of the average market price below 60%-70% of the cost price) or prolonged decline (continuing decline of the market price for the last 12 months) in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Fair value of derivatives
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data. Therefore areas such as credit risk volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

Application of the effective interest rate method
The application of the effective interest rate method for loan related fees requires the use of estimates about the expected life and other patterns and characteristics of the loan portfolio. In building up these estimates the bank utilizes the experience of other entities in Eurobank Group and Bulgarian market conditions.

Sensitivity analysis of assets and liabilities
The sensitivity analysis illustrates the potential impact on the income statement and equity for reasonable possible shifts. Sensitivity to changes in the three major market risk factors – foreign exchange, interest rate and equity price risk, has been calculated. The parameters of calculations used have been determined based on the current market environment and the dynamics during 2012 and represent reasonable possible shifts in the market variables.
The Foreign exchange risk sensitivity has been calculated directly on the total net open position of the Bank as 25% depreciation / 20% appreciation of the local currency against all foreign currencies (excluding Euro). The BGN/EUR exchange rate is fixed at 1.95583 as part of the Currency Board Arrangement.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

W. Critical accounting estimates and judgments in applying accounting policy (continued)

The Interest rate risk sensitivity has been estimated by applying a parallel yield curve shift to all of the Bank's relevant on- and off-balance sheet positions and calculating the changes in their present value.

The Equity price risk sensitivity has been calculated by applying a 25% drop / 25% increase in equity prices across the board.

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuers. The bank follows its accounting policy to revalue the land and building every five years. Based on the accounting policy of the Bank the revaluation of land and buildings has been performed by a qualified independent valuer at the end of 2011.

The main valuation methods used to determine the fair value were:

- market prices analogues (where assets are compared to those similar of nature offered on the market)
- present value of future income for rent generating assets (DCF)
- method of reduced cost (taking into account the price that the asset would cost at present if acquired or built and reduced on the basis of economic and physical depreciation factors).

Derecognition of a financial assets

The Bank derecognises a financial asset when, and only when:

(a) the contractual rights to the cash flows from the financial asset expire; or
(b) it transfers the financial asset and the transfer qualifies for derecognition .

The Bank transfers a financial asset if, and only if, it either:

(a) transfers the contractual rights to receive the cash flows of the financial asset; or
(b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions below:
    - The Bank has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset.
    - The Bank is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
    - The Bank has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay.

When the Bank transfers a financial asset, it evaluates the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

(a) if it transfers substantially all the risks and rewards of ownership of the financial asset, the Bank derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.
(a) if the Bank retains substantially all the risks and rewards of ownership of the financial asset, it shall continue to recognise the financial asset.
(b) if the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it shall determine whether it has retained control of the financial asset. In this case: The transfer of risks and rewards is evaluated by comparing the Bank's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. The Bank has transferred substantially all the risks and rewards of ownership of a financial asset if its exposure to such variability is no longer significant in relation to the total variability in the present value of the future net cash flows associated with the financial asset.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

1 Net interest income

Interest income	2012	2011
Loans and advances to customers	364,849	403,474
Derivative instruments	23,669	31,451
Loans and advances to banks	17,847	30,145
Investment securities	7,204	9,586
Hedging instruments	3,350	4,786
Trading securities	288	751
Total	**417,207**	**480,193**

Interest income accrued on impaired financial assets is BGN 16,744 thousand (2011: BGN 15,367 thousand).

Interest expense	2012	2011
Deposits from customers	175,551	184,718
Derivative instruments	15,258	25,839
Long term debt	7,869	10,029
Hedging instruments	6,648	9,211
Deposits from banks	1,445	4,773
Debt securities issued	401	1,899
Total	**207,172**	**236,469**

2 Net fee and commission income

Fees and commission income	2012	2011
Transfers	19,212	18,682
Loans' fees and commissions	16,874	16,080
Account maintenance	11,111	10,660
Foreign exchange operations	7,842	8,915
Receipts from sales of services	5,988	5,340
Cash operations	4,322	4,627
Documentary business	1,842	2,098
Operations with derivatives	884	1,177
Management, brokerage and securities trading	710	824
Other fees	137	202
Total	**68,922**	**68,605**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

2 Net fee and commission income (continued)

Fee and commission expense	2012	2011
Loans related fees	6,668	7,484
Transactions processing	4,791	4,431
Operations related to derivatives	426	842
Fees related to long term funding	646	653
Cash transactions and correspondent accounts	618	611
Other fees	530	309
Management, brokerage and securities trading	176	195
Total	**13,855**	**14,525**

3 Other operating income

	2012	2011
Rental income	165	156
Net gain/(loss) from sales of non-current fixed assets	4	6
Total	**169**	**162**

4 Net trading income

	2012	2011
Translation gains less (losses)	(53)	62
Net results from derivative instruments and FX transactions	195	389
Net trading income	**142**	**451**

5 Other operating expenses

	2012	2011
Staff costs (Note 6)	60,216	67,376
Operating lease rentals	23,395	25,292
Depreciation of property, plant and equipment (Note 16)	11,093	10,663
Advertising and marketing	6,072	6,069
Repairs and maintenance	6,853	7,133
Security	4,192	4,754
Materials and utilities	2,457	2,883
Software costs	3,679	3,905
Communication	2,528	2,811
Amortisation of intangible assets (Note 17)	4,293	3,645
External services	5,454	4,784
Other operating costs	991	1,231
Travel and accommodation	677	958
Levies and taxes	281	309
Insurance	234	272
Total	**132,415**	**142,085**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

6 Staff costs

	2012	2011
Wages and salaries	50,479	55,219
Pension insurance	4,144	5,025
Social security costs	3,552	3,800
Other	2,041	3,332
Total staff cost	**60,216**	**67,376**

The Bank estimated that the pension obligation provision as at year end is BGN 2,644 thousand (2011: BGN 2,642 thousand). See note 25.

7 Impairment charge for credit losses

	2012	2011
Loans and advances to customers (Note 13)	(109,649)	(132,786)
Credit commitments	2	(11)
Total	**(109,647)**	**(132,797)**

8 Income tax expense

	2012	2011
Deferred income tax (Note 23)	88	538
Current income tax	214	307
Total	**302**	**845**

Tax is payable at an actual rate of 10% (2011: 10%) on adjusted profits under Corporate Tax Act.

The tax on the operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

	2012	2011
Profit before income tax	**1,793**	**8,293**
Tax calculated at a tax rate of 10% (2011: 10%)	179	829
Tax effect of:		
Income and expenses not subject to tax, net	(16)	16
Income and expense not recognized subject to tax, net	139	-
Income tax expense	**302**	**845**

Additional information about deferred tax is presented in Note 23.

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and may impose additional taxes and penalties. The Bank's management is not aware of any circumstances which may give rise to a potential material liability in this respect. The last full-scope tax audit of the Bank has been carried out in 2008, covering the periods to 31 December 2007.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

9 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2012			2011		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Available for sale investments	7,510	(751)	6,759	(3,078)	308	(2,770)
Total	**7,510**	**(751)**	**6,759**	**(3,078)**	**308**	**(2,770)**

10 Cash and balances with the Central Bank

	2012	**2011**
Cash in hand	108,955	93,666
Balances with Central bank	509,259	605,277
Total	**618,214**	**698,943**
of which:		
Mandatory reserve with Central Bank	390,260	418,796

Mandatory reserves with Central bank represent the minimum level of average monthly deposits which the Bank is required to maintain. Balances with Central bank can be withdrawn provided the average monthly minimum deposits are maintained.

11 Loans and advances to banks

	2012	**2011**
Deposits in other banks	667,614	835,168
Reverse repurchase agreements	-	12,835
Total	**667,614**	**848,003**

Included in the amount of loans and advances to banks is accrued interest of BGN 40 thousand (2011: BGN 607 thousand).

Approximately 98 % (2011: 97 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries, with the remainder held with banks in Bulgaria and Romania (Note 29).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

12 Financial assets held for trading	2012	2011
Bulgarian government bonds	5,502	469
Shares	1,105	981
	6,607	**1,450**
Equity securities:		
- Listed	1,105	981
Bonds:		
- Listed	162	31
- Unlisted	5,340	438

Included in the amount of the bonds is accrued interest in the amount of BGN 106 thousand (2011: BGN 4 thousand).

Gains less losses from trading securities	2012	2011
Debt securities	99	674
Equity securities	(183)	(398)
Total	**(84)**	**276**

13 Loans and advances to customers	2012	2011
Consumer lending (including credit cards)	773,716	804,039
Small Business lending	847,039	861,011
Mortgages	1,211,935	1,007,554
Corporate lending	1,521,255	1,726,909
Gross loans and advances	**4,353,945**	**4,399,513**
Less allowance for impairment losses on loans and advances	(318,844)	(244,862)
Net outstanding balance of loans and advances to customers	**4,035,101**	**4,154,651**

As at 31 December 2012, the fair value of loans and advances to customers was BGN 4,426,192 thousand.

Included in the amount of loans and advances to customers is accrued interest of BGN 44,164 thousand (2011: BGN 47,508 thousand). In 2012 Eurobank Bulgaria AD purchased loans from BRS in the amount of BGN 167,688 thousand (2011: BGN 14,092 thousand), loans from Eurobank Private Bank LUX in the amount of BGN 9,807 thousand (2011: loans were purchased from Eurobank Private Bank LUX amounting to BGN 300,079 thousand) and loans from Eurobank Factors, Bulgaria branch amounting to BGN 57,877 thousand. Another BGN 184,383 thousand loans were sub participated to BRS and accordingly derecognised (2011: BGN 89,369 thousand loans were sub participated to ERB New Europe Funding II BV and derecognised). All of the companies are related parties of Eurobank Group.

	2012	2011
The ten largest exposures to customers	389,348	409,706
Percentage of gross loans	8.94%	9.31%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

13 Loans and advances to customers (continued)

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2011	**54,324**	**14,847**	**38,755**	**78,273**	**186,199**
Acquisition of loan portfolio	-	1,879	-	-	**1,879**
Disposal of loan portfolio	-	-	-	(27,421)	**(27,421)**
Charge for the year	35,597	13,030	29,380	54,779	**132,786**
Recoveries and legal and collection fees	441	(263)	291	(252)	**217**
Amounts written off	(28,770)	(9,140)	(116)	(10,580)	**(48,606)**
Foreign exchange differences	(28)	(242)	235	(157)	**(192)**
At 31 December 2011	**61,564**	**20,111**	**68,545**	**94,642**	**244,862**

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2012	**61,564**	**20,111**	**68,545**	**94,642**	**244,862**
Acquisition of loan portfolio	-	3,429	508	-	**3,937**
Disposal of loan portfolio	-	-	-	(35,858)	**(35,858)**
Charge for the year	27,149	13,774	31,226	37,500	**109,649**
Recoveries and legal and collection fees	1,505	(178)	728	485	**2,540**
Amounts written off	(224)	(5,792)	(30)	(172)	**(6,218)**
Foreign exchange differences	9	(7)	(70)	-	**(68)**
At 31 December 2012	**90,003**	**31,337**	**100,907**	**96,597**	**318,844**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

14 Investment securities, available for sale

	2012	2011
Bulgarian government bonds	126,918	97,435
Corporate unsecured bonds	32,293	41,273
Foreign government bonds	8,392	7,235
Shares and participations	7,296	9,790
Total	**174,899**	**155,733**
Equity securities		
Listed	988	1,682
Unlisted	6,308	8,108
Debt securities		
Listed	151,910	123,698
Unlisted	15,693	22,245
	174,899	**155,733**

Included in the amount of investment securities is accrued interest in the amount of BGN 5,489 thousand (2011: BGN 4,421 thousand).

Foreign government bonds consist of exposures to the following countries: Romania BGN 4,572 thousand (maturing 2018) and Ukraine BGN 3,820 thousand (maturing 2015) (2011: Romania BGN 3,998, Ukraine BGN 3,237)

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2010	**340,263**
Additions	35
Disposals	(163,016)
Change in accrued interest	(8,318)
Amortization of discounts or premium	(8,311)
Net fair value (loss)	(4,920)
Impairment of corporate bonds	-
Book value as at 31 December 2011	**155,733**
Additions	56,969
Disposals	(42,690)
Change in accrued interest	1,068
Amortization of discounts or premium	2,684
Net fair value gain	4,401
Impairment of corporate bonds	(3,266)
Book value as at 31 December 2012	**174,899**

Gains less (losses) and impairment of securities available for sale	**2012**	**2011**
Transfer the revaluation reserve (deficit) from equity to income statement	2,428	5,446
Gains less (losses) recognized on sale of AFS securities directly through income statement	(2,654)	(4,097)
Impairment of investment security recognised directly in income statement	(3,266)	(197)
	(3,492)	**1,152**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

15 Investment property

Investment property is held for capital appreciation and is not occupied by the Bank. Investment property is carried at fair value, representing open market value determined by external valuers. The changes in the fair values are recorded in the income statement as part of other income.

Investment property	**2012**	**2011**
Beginning of the year	876	876
Net gains or losses from fair value adjustments	-	-
End of the year	**876**	**876**

16 Property, plant and equipment

	Land and buildings	**Leasehold improvements**	**Plant and equipment**	**Total tangible fixed assets**
At 31 December 2010				
Gross amount	24,372	33,412	97,250	155,034
Accumulated depreciation	(3,540)	(12,286)	(59,889)	(75,715)
Net book amount	**20,832**	**21,126**	**37,361**	**79,319**
Year ended 31 December 2011				
Opening net book amount	20,832	21,126	37,361	79,319
Additions	128	246	1,436	1,810
Disposals and write offs	-	(63)	(37)	(100)
Transfers	-	-	(2,498)	(2,498)
Depreciation charge (Note 5)	(412)	(2,195)	(8,056)	(10,663)
Closing net book amount	**20,548**	**19,114**	**28,206**	**67,868**
At 31 December 2011				
Gross amount	24,500	33,546	91,645	149,691
Accumulated depreciation	(3,952)	(14,432)	(63,439)	(81,823)
Net book amount	**20,548**	**19,114**	**28,206**	**67,868**
Year ended 31 December 2012				
Opening net book amount	20,548	19,114	28,206	67,868
Additions	115	1,185	1,610	2,910
Disposals and write offs	(243)	-	-	(243)
Transfers	-	-	-	-
Depreciation charge (Note 5)	(219)	(3,562)	(7,312)	(11,093)
Closing net book amount	**20,201**	**16,737**	**22,504**	**59,442**
At 31 December 2012				
Gross amount	24,541	32,484	89,657	146,682
Accumulated depreciation	(4,340)	(15,747)	(67,153)	(87,240)
Net book amount	**20,201**	**16,737**	**22,504**	**59,442**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

17 Intangible assets

At 31 December 2010	
Gross book amount	43,476
Accumulated amortisation	(19,573)
Net book amount	**23,903**
Year ended 31 December 2011	
Opening net book amount	23,903
Additions	7,974
Disposals and write offs	-
Transfers	2,498
Amortisation charge (Note 5)	(3,645)
Closing net book amount	**30,730**
At 31 December 2011	
Gross book amount	57,379
Accumulated amortisation	(26,649)
Net book amount	**30,730**
Year ended 31 December 2012	
Opening net book amount	30,730
Additions	5,389
Disposals and write offs	-
Transfers	-
Amortisation charge (Note 5)	(4,293)
Closing net book amount	**31,826**
At 31 December 2012	
Gross book amount	62,767
Accumulated amortisation	(30,941)
Net book amount	**31,826**

18 Other assets

Other assets	**2012**	**2011**
Other debtors	14,004	3,624
Repossessed collaterals	7,651	2,911
Amounts in transit	6,602	3,895
Prepaid expenses	4,625	2,738
Other assets	699	836
Materials	124	123
Less: provision against other assets	(858)	(1,228)
	32,847	**12,899**

The financial assets contained in the Other assets note amounted to BGN 20,447 thousand (2011: BGN 7,126 thousand) of which BGN 858 thousand (2011: BGN 1,228 thousand) represents impaired financial assets and the rest are neither past due nor impaired. Related parties receivables included in line Other debtors amount to BGN 10,485 thousand (2011: BGN 163 thousand). (Note 29)

Provision against other financial assets	**2012**	**2011**
Opening balance at 1st of January	1,228	1,026
Charged to the income statement	370	702
Reversed to the income statement	(62)	(43)
Used during year	(678)	(457)
Closing balance	**858**	**1,228**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

19 Deposits from Banks

	2012	2011
Items in course of collection	6,639	38,703
Deposits from other banks	36,247	53,302
Repurchase agreements	62,800	-
	105,686	**92,005**

Included within due to other banks is accrued interest payable of BGN 94 thousand (2011: BGN 66 thousand).

20 Derivative financial instruments

The Bank enters into the following derivative contracts for either hedging or non-hedging (business) purposes: currency forwards, currency swaps, interest rate swaps, cross currency interest rate swaps, forward rate agreements, interest rate futures, currency options and interest rate options.

Currency forward contracts are obligations to trade one currency for another at a specified exchange rate on a specific future delivery date. Being OTC contracts, currency forwards can be designed to exactly fit the clients' requirements as to the principal amount in the trade, its exact delivery date and which currencies are involved.

Currency swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or a combination of currencies and interest rates (i.e., cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. Since currency swaps may call for a final exchange of principal (increased importance of the diffusion effect), the potential credit exposure profile tends to be upward sloping. This risk is monitored on an on-going and forward looking basis with reference to the current fair value, a proportion of the notional amount of the contracts and the potential future exposure. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of interest rates. The expected and maximum potential exposure profiles for an interest rate swap are estimated by a modeling exercise at inception. These depend on the "diffusion effect" (volatility of the underlying as well as other stochastic properties) and "amortization effect" (the passage of time). The peak exposure occurs at an intermediate point during the swap's life. Since the notional amounts themselves are not exchanged, the percentage of notional amount at risk is relatively low in normal market conditions.

A forward rate agreement (FRA) is an agreement between two parties in which one party, the buyer or the long, agrees to make a known interest payment to the other party, the seller or the short, at a future date, with the seller agreeing to make an interest payment to the buyer based on an unknown rate that will be determined when the contract expires. Most FRAs are based on well-established interest rates such as dollar LIBOR or EURIBOR.

Interest rate futures are exchange traded contracts on fixed income securities such as U.S. Treasury issues, or based on the levels of specified interest rates such as LIBOR. The associated credit risk is small, as futures contracts are collateralized by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange.

Options are financial instruments that give one party the right, but not the obligation, to buy or sell an underlying asset from or to another party at a fixed price over a specific period of time (also referred to as contingent claims). Options do not generally have periodic payments but are characterized by an up-front payment of the option premium and a final option payoff payment. The amortization effect is limited and is outweighed by the diffusion effect – a longer time period translates into a greater scope for movements in the underlying variable, which can generate a large exposure on the option payoff.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

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

	Contract / notional amount	Assets	Liabilities
Year ended 31 December 2012			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	17,502	58	42
OTC currency swaps	1,749,831	769	608
OTC currency options	148	-	-
Total OTC currency derivatives	**1,767,481**	**827**	**650**
Interest rate derivatives			
OTC interest rate swaps	538,495	2,523	2,097
OTC cross-currency interest rate swaps	54,000	1,820	2,111
OTC IR options bought and sold	268,956	1,879	1,879
Total OTC interest rate derivatives	**861,451**	**6,222**	**6,087**
Derivatives held for hedging			
OTC interest rate swaps	60,936	-	7,537
Total recognised derivative assets / liabilities		**7,049**	**14,274**
Year ended 31 December 2011			
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	2,547	66	61
OTC currency swaps	1,708,165	5,536	2,748
Total OTC currency derivatives	**1,710,712**	**5,602**	**2,809**
Interest rate derivatives			
OTC interest rate swaps	754,607	4,567	2,611
OTC cross-currency interest rate swaps	242,233	4,532	4,779
OTC forward rate agreement	39,117	-	70
OTC IR options bought and sold	441,644	1,386	1,386
Total OTC interest rate derivatives	**1,477,601**	**10,485**	**8,846**
Derivatives held for hedging			
OTC interest rate swaps	92,169	-	11,497
Total recognised derivative assets / liabilities		**16,087**	**23,152**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate assets denominated in foreign currencies using interest rate swaps. The fair value of these swaps at 31 December 2012 was negative BGN 7,537 thousand (2011: negative BGN 11,497 thousand).

The gain on the hedging instruments was BGN 3,515 thousand (2011: gains BGN 5,395 thousand). The loss on the hedged item attributable to the hedged risk was BGN 3,541 thousand (2011: loss BGN 5,091 thousand). In 2012 the fair value hedges were highly effective (2011: highly effective), and the net effect recognised in income statements is loss of BGN 26 thousand (2011: gain BGN 304 thousand).

21 Due to customers	**2012**	**2011**
Large corporate customers	666,044	1,204,949
Medium corporate customers	125,381	127,301
Total due to corporate customers	**791,425**	**1,332,250**
Retail customers	3,621,793	3,385,498
Total due to customers	**4,413,218**	**4,717,748**

Included within due to customers is related accrued interest payable of BGN 34,232 thousand (2011: BGN 38,174 thousand).

22 Debt issued and other borrowed funds	**2012**	**2011**
Subordinated debt	122,896	123,050
Long term loan from EBRD	85,515	122,168
Long term debt from Bulgarian Development Bank	38,982	34,397
European Investment Bank Loan	19,565	19,601
Bank of Nova Scotia, London Branch	1,964	-
Debt securities in issue	-	40,049
Total	**268,922**	**339,265**

a) Subordinated debt instruments

In March 2005, DZI Bank signed a subordinated debt agreement for total amount of BGN 25,000 thousand. In November 2006, all rights and obligations /including the receivables/, held by the legal entities (lenders) under agreements concluded by DZI Bank have been transferred to Eurobank EFG Holding /Luxembourg/ S.A., whereas all contractual terms remain unchanged. As of 31 December 2012 the total liability amounted to BGN 25,032 (2011: BGN 25,072 thousand).

In June 2007, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias in the amount of EUR 30,000 thousand (BGN 58,675 thousands). In June 2012 an extension of the maturity until June 2020 was agreed between the parties. As of 31 December 2012 the total liability amounted to BGN 58,702 (2011: BGN 58,744 thousand).

In August 2010, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias for EUR 20,000 thousand (BGN 39,117 thousand) with maturity 2017. In June 2012 an extension of the maturity until June 2020 was agreed between the parties. As of 31 December 2012 the total liability amounted to BGN 39,162 thousand (2011: BGN 39,234 thousand).

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

b) Loans received from The European Bank for Reconstruction and Development

In October 2010 Eurobank Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement for a credit limit of EUR 75,000 thousand (BGN 146,687 thousand) divided in two tranches , the first of which for EUR 37,500 thousand (BGN 73,344 thousand) was fully disbursed as of end of 2010. The granted funds are used for financing private enterprises, firms, businesses, sole proprietors or other legal entities. As at 31 December 2012 the total liability amounted to BGN 58,829 thousands (2011: BGN 73,644).

In July 2008, Eurobank Bulgaria and the European Bank for Reconstruction and Development executed a Loan Agreement whereby the Bank can borrow up to EUR 25,000 thousand (BGN 48,896 thousand) for the purpose of granting funds to small and medium-sized enterprises. As of 31 December 2012 the total liability amounted to BGN 19,737 thousand (2011: BGN 34,503 thousand).

In December 2006, Eurobank Bulgaria and the European Bank for Reconstruction and Development amended and restated an existing Loan Agreement contract as of 2004 whereby the Bank can borrow up to EUR 15,000 thousand (BGN 29,337 thousand) for the purposes of granting loans to corporate customers for improving rational energy utilization and renewable energy projects. As of 31 December 2012 the total liability amounted to BGN 6,949 thousand (2011: BGN 14,021 thousand).

c) Debt securities in issue

In March 2012 the corporate bonds with nominal amount of BGN 40,000 thousand issued in April 2007 matured and were fully repaid. The outstanding balance as of 31 December 2012 is zero (2011: BGN 40,049 thousand).

d) Loans received from the Bulgarian Development Bank

In February 2009, Eurobank Bulgaria and the Bulgarian Development Bank signed a Loan Agreement for BGN 20,000 thousand to be repaid gradually until 2018. The financing was part of the government measures package, aiming to minimize the global financial crisis impact over the Bulgarian economy. The purpose of the granted funds is medium to long term financing of small and medium enterprises. As of 31 December 2012 the total liability amounted to BGN 20,503 thousand (2011: BGN 20,003 thousand).

In August 2011, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for Small and Medium-sized enterprises in Bulgaria of KfW, Germany, for EUR 7,250 thousand (BGN 14,178 thousand). The loan was disbursed in August 2011, with a final repayment date in September 2020. The outstanding balance at 31 December 2012 is BGN 13,497 thousand (2011: BGN 14,394 thousand).

In November 2012, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for financing of Small and Medium sized enterprises in Bulgaria. The loan was disbursed in December 2012, with principal maturity schedule up to March 2017. The outstanding balance at 31 December 2012 is BGN 4,982 thousand.

e) Loan received from the European Investment Bank

In October 2009, Eurobank Bulgaria and the European Investment Bank signed a Loan Agreement for a total amount of EUR 50,000 thousand (BGN 97,792 thousand) for financing of investment projects of small and medium sized enterprises in Bulgaria as well as for working capital. The contract has repayment schedule with final repayment date in 2018. As of 31 December 2012 the total liability amounted to BGN 19,565 thousand (2011: BGN 19,601 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

f) Short-term Loan from The Bank of Nova Scotia, London branch

In August 2012, a short-term target financing of EUR 1,000 thousand (BGN 1,956 thousand) maturing in February 2013 was obtained from the Bank of Nova Scotia for a target pre-export financing of a customer of Eurobank Bulgaria AD. The outstanding balance at 31 December 2012 is BGN 1,964 thousand.

The following tables analyses the debt issued and other borrowed funds by contractual maturity and also into fixed and floating rate:

				31 December 2012
	Within 1 year	1-5 years	Over 5 years	Total
Subordinated debt				
Floating rate	-	-	122,792	**122,792**
Accrued interest	104	-	-	**104**
EBRD Credit lines				
Floating rate	50,447	34,199	-	**84,646**
Accrued interest	869	-	-	**869**
Loan from Bulgarian Development Bank				
Fixed rate	-	20,975	4,000	**24,975**
Accrued interest	509	-	-	**509**
Loan from Bulgarian Development Bank				
Floating rate	1,668	6,672	5,006	**13,346**
Accrued interest	152	-	-	**152**
Loan from the European Investment Bank				
Floating rate	-	15,636	3,909	**19,545**
Accrued interest	20	-	-	**20**
Loan from the Bank of Nova Scotia, London branch				
Floating rate	1,956	-	-	**1,956**
Accrued interest	8	-	-	**8**
Total Debt issued and other borrowed funds	**55,733**	**77,482**	**135,707**	**268,922**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

				31 December 2011
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Corporate Bonds				
Floating rate	39,995	-	-	**39,995**
Accrued interest	54	-	-	**54**
Subordinated debt				
Floating rate	-	-	122,792	**122,792**
Accrued interest	258	-	-	**258**
EBRD Credit lines				
Floating rate	36,020	84,389	-	**120,409**
Accrued interest	1,759	-	-	**1,759**
Loan from Bulgarian Development Bank				
Fixed rate	-	12,000	8,000	**20,000**
Accrued interest	3	-	-	**3**
Loan from Bulgarian Development Bank				
Floating rate	834	6,673	6,673	**14,180**
Accrued interest	214	-	-	**214**
Loan from the European Investment Bank				
Floating rate	-	11,735	7,810	**19,545**
Accrued interest	56	-	-	**56**
Total Debt issued and other borrowed funds	**79,193**	**114,797**	**145,275**	**339,265**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

23 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2011: 10%). The movement on the deferred income tax account is as follows:

	2012	2011
Deferred tax liability at the beginning of year	3,870	3,332
Income statement charge (Note 8)	88	538
Deferred tax on taxable loss in 2011	27	-
Deferred tax liability at end of year	**3,985**	**3,870**

Deferred income tax assets and liabilities are attributable to the following items

	2012	2011
Deferred income tax liabilities		
Accelerated tax depreciation	4,016	3,928
Property revaluation	264	264
Gain on share exchange	416	416
	4,696	**4,608**
Deferred income tax assets		
Unused holidays	115	123
Provision for court claims	219	167
Provision for retirement obligations	264	264
Deferred tax assets on taxable loss	-	27
Other temporary differences	113	157
	711	**738**

The deferred tax charge/(credit) in the income statement comprises of the following temporary differences:

	2012	2011
Depreciation	88	440
Unused holidays	8	11
Provision for court claims and off balances	(51)	(3)
Deferred tax assets on taxable loss	-	(27)
Other temporary differences	44	159
Provision for retirement obligations	(1)	(42)
Net deferred tax charge	**88**	**538**

24 Provisions for other liabilities and charges

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. The timing of the expected cash outflow of the court cases provided for could not be precisely estimated. Based on management's estimation it is expected that in two years' time the outflow may be realized.

The table below represents the movement in provisions for legal claims:

Legal provisions	**2012**	**2011**
Opening balance at 1st of January	1,669	1,637
Charged to the income statement	573	174
Used during year	(57)	(142)
Closing balance	**2,185**	**1,669**

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

24 Provisions for other liabilities and charges (continued)

(b) Assets pledged

Assets are pledged as collateral under repurchase agreement with other banks, as security for government budget accounts and under long term debt agreement signed with Bulgarian Development Bank. Mandatory reserves calculated as a percentage of the deposit base are held with the Central Bank in accordance with statutory requirements for securing liquidity.

	Asset		**Related liability**	
	2012	**2011**	**2012**	**2011**
Mandatory reserves with BNB	390,260	418,796	4,628,412	4,863,620
Trading and investment securities (pledged under repurchase agreement and government accounts)	125,369	97,446	96,497	44,721
Loans pledged under long term debt agreement	24,117	31,090	38,982	34,397
Total	**539,746**	**547,332**	**4,763,891**	**4,942,738**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2012 was BGN 539,746 thousand (2011: BGN 547,332 thousand). These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities, as well as requirements determined by exchanges where the Bank acts as an intermediary.

The Bank has determined that it retains substantially all the risks and rewards of the pledged loans and trading and investment securities, therefore the specific assets have not been derecognized. The related liability is recognised in Deposits from banks (note 19) and Debt issued and other borrowed funds (note 22), as appropriate.

The Bank has entered into reverse repurchase agreements with clients for the total amount of BGN 586 thousand (2011: reverse repurchase agreements with financial institutions and other clients for BGN 13,422 thousand). The Bank has accepted shares at fair value BGN 553 thousand (2011: bonds and shares for BGN 14,192 thousand) as collateral, which it is permitted to sell or repledge. The collaterals accepted have not been repledged or lent to third parties.

25 Retirement benefits obligations	**2012**	**2011**
Retirement benefit obligation at start of period	2,642	2,226
Service cost	372	337
Interest cost	130	131
Benefits paid	(81)	(156)
Actuarial (gain)	(419)	104
Retirement benefit obligation at end of period	**2,644**	**2,642**
Expenses recognised in profit or loss		
Service cost	372	337
Interest cost	130	131
Actuarial (gain)	(419)	104
Total expense included in staff costs	**83**	**572**
Actuarial assumptions	**2012**	**2011**
Discount rate	4.25%	5%
Future salary increase	2.5%	3.0%
Inflation rate	0%	2.5%

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

26 Other liabilities

Other liabilities	**2012**	**2011**
Other creditors	19,005	5,929
Accrued expenses	10,507	15,996
Unused paid leave accrual	1,153	1,232
Other	252	276
Total	**30,917**	**23,433**

Related parties payables included in line Other creditors amount to BGN 9,121 thousand (2011: BGN 180 thousand). (Note 29)

27 Share capital

As of 31 December, 2012 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 (2011: 452,752,652) with a nominal value of BGN 1 per share. All issued shares are fully paid.

28 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances with less than 90 days maturity from the date of acquisition:

	2012	**2011**
Cash in hand (Note 10)	108,955	93,666
Balances with Central bank excluding the minimum level of mandatory reserves	314,129	395,879
Loans and advances to banks (Note 11)	667,614	848,003
Total amount of cash and cash equivalent	**1,090,698**	**1,337,548**

29 Related party transactions

Eurobank Bulgaria AD is a subsidiary of Eurobank Ergasias S.A. which is listed on the Athens Stock Exchange.

Until 23 July 2012, Eurobank Ergasias S.A. was a member of the EFG Group, which held 44.70% of the Bank’s ordinary shares and voting rights, through wholly owned subsidiaries of the ultimate parent company.

On 23 July 2012, 43.55% of the ordinary shares and voting rights held by EFG Group were transferred to ten legal entities, each of which acquired approximately 4.4%, while the EFG Group retained the remaining 1.15%. These entities have formally stated they are independent from each other. As a result, from 23 July 2012, onwards, Eurobank ceased to be under EFG Group’s control and will no longer be consolidated in the financial statements of the EFG Group. In addition, the Bank’s corporate and trade name have already been amended in order to no longer include the “EFG” suffix.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related-party transactions, outstanding balances at the year end, and relating expense and income for the year are as follows:

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

29 Related party transactions (continued)

	31 December 2012			31 December 2011		
	Parent company	Other Group companies	Key management personnel	Parent company	Other Group companies	Key management personnel
Purchased loans and advances to customers from related parties (Note 13)	-	235,372	-	-	314,171	-
Sub participated loans and advances to customers to related parties (Note 13)	-	184,383	-	-	89,369	-
Loans and advances to banks	645,546	19	-	809,064	22	-
Loans and advances to customers	-	-	13	-	12	1
Financial assets held for trading	-	-	-	-	-	-
Derivative financial instruments assets	4,535	192	-	11,175	2,138	-
Other assets	-	10,485	-	-	163	-
Due to other banks	2,746	180	-	51,680	604	-
Due to customers	-	147,003	12	-	764,635	10
Debt issued and other borrowed funds	97,865	25,032	-	97,978	25,072	-
Derivative financial instruments liabilities	10,444	-	-	17,171	-	-
Other liabilities	-	9,121	-	-	180	-
Interest income	30,158	16,063	1	57,867	4,080	5
Interest (expense)	(17,630)	(2,338)	-	(28,360)	(16,408)	(5)
Fee and commission income	464	1,310	-	356	898	-
Fee and commission (expense)	(1,490)	(5)	-	(1,733)	(5)	-
Net trading income	4,528	(17)	-	9,059	(245)	-
Salaries and other short-term benefits	-	-	1,118	-	-	1,504
Rental expense	-	1,262	-	-	-	-
(Loss)/gain on derivatives	(1,635)	-	-	(3,823)	-	-
Valuation expenses	-	(252)	-	-	(307)	-
Other Expenses	(587)	167	-	(151)	(59)	-
Letters of guarantee issued	-	3,818	-	3,912	11,240	-
Letters of guarantee received	733	-	-	1,714	-	-
Operating leases transferred	-	4,959	-	-	-	-

All loans lent to related parties in 2012 (and 2011) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2012 (and 2011) related to them.

During 2012 The Bank changed its HO location moving to a building owned by a related party. In exchange of a long-term rent contract the owner of the new premises replaced the Bank by undertaking all its obligations and benefits contracted for previous HO buildings. Total obligations undertaken by the related party amount to BGN 4,959 thousand till the expiration of the ex-HO buildings contracts.

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

29 Related party transactions (continued)

As of 31.12.2012 all risks and rewards related to the portfolio sub participated from the Bank to ERB New Europe Funding II BV in 2011 were transferred from the latter to another related party. With regards to the above, the Bank's obligation as at 31.12.2012 related to a guarantee issued in 2011 in favour of ERB New Europe Funding II BV amounting to BGN 8,936 thousand was fully covered by the new sub-participant.

30 Contingent liabilities and commitments

(a) Legal proceedings

The Bank is subject to a number of legal proceedings arising in the normal course of business. Besides of the provision made (Note 24) no contingent liabilities associated with legal actions have been disclosed as professional advice indicates that the possibility of any significant loss is remote.

There is a litigation case between Road Infrastructure Agency and participants in Consortium DZI Trans (DZI Bank AD, DZI General Insurance and Insurance and Reinsurance Company DZI AD).The case is under review and is a part of the legal process in Bulgaria.

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2012, the Bank had the contractual amounts of its off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2012	**2011**
Financial guarantees	66,399	72,207
Letters of credit	16,752	20,502
Loan commitments and other credit related liabilities	508,069	567,404
Total	**591,220**	**660,113**

31 Operating leases

(a) Operating lease commitments-Bank as a lessee

The Bank has entered into commercial leases on premises and vehicles. Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

Future minimum lease payments	**2012**	**2011**
No later than one year	8,775	13,590
Later than one year and no later than five years	1,056	10,691
Later than five years	-	2,090
Total	**9,831**	**26,371**

(b) Operating lease commitments-Bank as a lessor

The Bank has entered into commercial leases on premises. Where the Bank is the lessor, the amount of the future minimum rentals under non-cancellable operating leases as of 31 December 2012 is BGN 28 thousand (2011: BGN 23 thousand).

(All amounts are shown in BGN thousands unless otherwise stated)

Notes to the financial statements (continued)

32 Events after the balance sheet date

National Bank of Greece S.A. Voluntary Tender Offer (VTO)

On 5 October 2012, the National Bank of Greece (NBG) announced its intention to launch a voluntary exchange offer to acquire all Eurobank's shares offering 58 new shares of NBG for every 100 shares of Eurobank tendered. NBG also stated that, Eurobank shareholders holding 43.6% of Eurobank's ordinary share capital have committed to tender their shares in the tender offer.
On 11 January 2013, the Board of Directors of Eurobank Ergasias S.A., having considered the content of the VTO information memorandum and the reports provided by the Bank’s financial advisors, concluded in summary that the Offer Consideration satisfies the requirements of the Law and is fair from a financial point of view.

On 15 February 2013, NBG announced that all necessary regulatory approvals have been obtained.

On 18 February 2013, NBG announced that during the offering’s acceptance period for Eurobank’s shareholders, 84,35% of Eurobank’s shareholders have accepted legally the VTO; thus NBG holds 84,38% of Eurobank’s paid in Share Capital.

As stated in the VTO documentation, the VTO will be followed by the merger of the two banks. In line with this, on 19 March 2013, the boards of Eurobank and NBG resolved to initiate the merger process, with NBG absorbing Eurobank, and set 31 December 2012 as the merger reference date. The merger is expected to be completed in a few months.