EUROBANK BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2014

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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 2014 and the statements of income, 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.

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Registered with the Sofia City Court under company file number 13424/1997.

This version of our report/the accompanying documents is a translation from the original, which was prepared in Bulgarian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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 2014, 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 11, is consistent with the accompanying financial statements of the Bank as of 31 December 2014.

Milka Damianova
Registered Auditor

31 March 2015
Sofia, Bulgaria

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ
София
Рег. №085
"ПрайсуотърхаусКупърс Одит" ООД

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

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

ANNUAL DIRECTORS' REPORT

The management presents the annual Directors' report as of 31 December 2014.

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.

BUSINESS OVERVIEW

Development and results from the business activity

In 2014 the Bank continued to follow its strategy based on preserving the sources of income and the quality of the assets, control over the expenses, including interest expense, as well as reducing the nonperforming portfolio. The political and economic events in the past year affected the activities of the banks as a whole and Eurobank Bulgaria in particular. The demand for loans remained subdued while the legislative changes helped increase the early repayments by the clients. In this context, the healthy rise of the operating income of the Bank by close to 10% shows the resilience of the business model which sets a solid foundation for even better results in 2015.

The growth rate of the world economy (2.6% in 2014) was again lower than the analysts' expectations and only marginally higher than in the previous year (2.5%). The developed countries continued to feel the consequences of the global financial crisis while the economies of the developing countries are less dynamic than in the past, due to lower consumption, political insecurity and tightening of the fiscal policies. Only the economies of USA and UK show positive results, but for the time being there is still no spillover effect on the other countries.

The EU countries recorded a growth of 1.3% in 2014, while the growth in the Eurozone was more moderate – 0.8%. For 2015 the expectations are the GDP growth to speed up to 1.7% and 1.3% respectively while the continuous deflationary processes will weigh down the recovery. In December 2014 the consumer price index in the Eurozone fell for a first time on an annual basis in the last five years, due to the prices of energy and food. In an effort to stimulate growth the European Commission announced in the end of November 2014 a EUR 315 billion investment plan, but there are still many uncertainties regarding its implementation.

Several factors will affect the growth of the world economy in the current year – the prices of the raw materials, the low interest rates, the various monetary policies and the weak international trade. In particular, the falling price of petroleum which started in the middle of 2014 will be an important factor supporting the economies of the oil importing countries, among which is also Bulgaria.

The preliminary data regarding the GDP growth in Bulgaria in 2014 are close to the forecasts. In the past year the GDP increased by 1.7% comfortably above the results in 2013 of 1.1% and close to the initial forecast of 1.8%. The contribution of all GDP components is positive, but the worsening of the trade deficit has a negative effect on the economy. The exports which were the main driver of growth in the previous years slowed down considerably from 9.2% in 2013 to 2.2% in 2014 due to the crises in Ukraine and Russia as well as because of the decrease of the prices of the raw materials internationally. The consumption increased by 2.4% and the investments by 2.8%, but this was not enough to compensate for the strong growth of the imports which increased by 3.8%. The fall of the foreign direct investments (by 7% to EUR 1.18 billion) is a cause of concern, especially the fact that equity investments reached their lowest level since 1996.

At the same time Bulgaria is falling into a deflation trap and for a second consecutive year the consumer price index was negative (-0.9%). While in 2013 this was mainly due to the decrease of the regulated prices, in 2014 the reason was the decrease in the price of petroleum in the second half of the

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year and the prices of the food and services. The non-fulfilment of the optimistically forecasted revenues and other unforeseen expenses increased the budget deficit to 3.7% of GDP, well above the initially planned 1.8%. The risk of the European Commission to open an Excessive Deficit Procedure against Bulgaria forced the ruling coalition to plan a deficit of 3% for 2015 which restricts the options to react in case the macroeconomic conditions worsen.

Unemployment rate decreased by 1 percentage point to 10.7%, which is having a positive impact on consumption, and the expectations are that in 2015 the unemployment rate will continue its downward trend.

The banking system remained stable and profitable with the confidence of the clients at a high level, despite the revocation of the license of Corporate Commercial Bank in the beginning of November. The repayment of the guaranteed deposits went smoothly with over 98% of the amounts staying in the banking system. For another year the deposits of companies and individuals increased – by BGN 1.5 billion. The increased liquidity was accompanied by a fall of the deposit rates which allowed the banks to decrease the cost of funds by close to BGN 750 million despite the inflow of deposits. This fully compensated the decrease of the interest income on loans which fell by BGN 655 million due to the drop in the loans (by BGN 2.7 billion compared with the end of 2013), the strong price competition and the continuing process of portfolio cleaning. In total, the income of the banks increased by more than BGN 195 million and was back at the level of 2011. The banks increased the provisions for impairment by BGN 85 million to BGN 1.15 billion and the net profit by 27.6% to BGN 746 million.

In 2014 the new EU banking regulations came into force. The Bulgarian banks were well prepared for its introduction, showing strong liquidity (30.12% as at 31 December 2014) and capital adequacy (21.95 % as at 31 December 2014) ratios. The ratios of Eurobank Bulgaria were even higher than the average for the system – the liquidity ratio stood at 39.14%, while the total capital adequacy ratio at 24.83%, despite the increase of the assets by BGN 445 million to BGN 6,138 million and the early termination of the BGN 25 million subordinated term debt agreement in December 2014.

The operating income of the Bank rose by 10% to BGN 271.2 million, mainly because of the lower interest expenses. Total deposits grew by 12% to BGN 5,077 million while at the same time the interest expenses decreased by over 18%. Deposits already constitute 96% of all attracted funds and the ratio net loans to deposits stands at 75.5%. The deposits from large and medium corporate customers rose by more than 26% to BGN 883 million which provides an opportunity for faster optimization of the cost of funds.

In contrast to the contracting lending volumes in the system, Eurobank Bulgaria managed to increase its gross loans by slightly more than 1% to BGN 4,308 million. Growth in the mortgage segment was much more significant – by over 5% to BGN 1,301 million which improves the collateral structure and ensures a stable income stream over the long run. The Bank set aside another BGN 123 million provisions for impairment, improving the nonperforming loans coverage ratio to 57%.

The net fees and commissions income increased by 5% to BGN 59.7 million, representing 22% of the operating income of the Bank. The new Consumer Credit Act which entered into force in the middle of 2014 affected negatively the early repayment fee income, but this was compensated for by better performance in transactional services income which is in line with the strategy of the Bank.

The operating expenses remained practically flat compared with the previous year. This, together with the higher income, helped improve the cost to income ratio by 3.7 percentage points to 46.5%, which is the lowest level since the beginning of the crisis.

Important events that have occurred during the financial year

In 2014, Postbank continued establishing itself as a modern bank, offering innovative technological solutions and products to its clients. The Bank is the country's fifth largest in terms of assets and remains a market leader in the segments of credit and debit cards, mortgage lending and saving products, as well as factoring services for corporate clients, investment banking and custody services offered to local and foreign institutional clients.

(All amounts are shown in BGN thousands unless otherwise stated)
In December 2014, Postbank introduced a new model for retail banking related to the opening of profiled centres for various customer-tailored services and to expand the web-based opportunities for new services.

In June 2014, Bulgarian Credit Rating Agency (BCRA) reaffirmed Postbank's long-term financial rating at BB +, its short-term rating at B and a stable outlook. It is the Bank's fourth credit evaluation by BCRA, which allowed the financial institution to successfully continue raising funds both on domestic and international markets and finance Bulgarian businesses and households, thus supporting the country's economy.

Postbank is a member of the European banking organization Eurobank Group. Following the successful share capital increase of EUR 2,864 million in May 2014, 64.6% of the Group's shares are owned by institutional and individual shareholders, including the Canadian and US-owned investment funds Fairfax Financial Holdings Limited, Mackenzie Financial Corporation, Capital Group Companies, Inc., etc.

Postbank is one of the leading institutions on the Bulgarian money and capital markets, an active participant in the interbank currency market and in the fixed-income securities market. It is among the most experienced and reliable investment intermediaries, constantly present on the Top 10 in terms of transactions, and at the same time the most active participant among all banking institutions in Bulgaria. Postbank has serious investment banking achievements and has received a number of prestigious international awards for the quality of its custody services.

In February 2014, the Bank was awarded for "Contribution to the Financing of Energy Efficiency Projects" on the occasion of the final implementation of the EBRD-funded programme *Energy Efficiency Renewable Energy Credit Line*. As one of the partner banks in the *Energy Efficiency Renewable Energy Credit Line Framework,* Postbank has utilised 95% of the credit line worth EUR 15 million in projects for the implementation of renewable energy sources.

In April 2014, the financial institution signed a BGN 10 million agreement for a new guarantee scheme for loans to micro-, small and medium-sized enterprises with the National Guarantee Fund of the Bulgarian Development Bank. Under this agreement, loans are disbursed at a lower value of collateral and will be granted at lower interest than standard bank rates.

During the year, Postbank organised three specialised conferences called "Postbank meets business" in Veliko Tarnovo, Dobrich and Rousse. The purpose of those meetings was to enable the Bank's experts to present strategic solutions to help businesses and entrepreneurs in their respective regions.

New products and innovations

In 2014, Postbank continued to invest in providing innovative solutions and some of the highlights are its offers designed for residential mortgage and consumer loan customers.

In June 2014, the Bank pioneered the market in offering its customers online video advice on options for housing funding. To ensure optimal customer convenience in their business everyday routine, the financial institution has expanded the range of modern and innovative products and services by adding an additional channel for free advice on loans - a direct online streaming link. One of many reasons to introduce this service was the significant growth of 200% in online applications for housing loans reported by the Bank in the first half of 2014.

During the year, the team managing Mortgage Lending upgraded its innovative product Saving Mortgage Loan introducing an additional functionality. The new feature enables customers to repay their loan faster, without increasing their monthly instalment or making additional payments. In this way, they can repay their loan by up to six years earlier.

In addition Postbank credit cardholders were offered a number of new proposals and improved services. The Bank introduced an innovative service for payment in equal monthly instalments via credit cards, so customers can immediately take away their purchases and pay them in instalments at over 1000 partner sites throughout the country.

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

The Bank continued to improve MyRewards loyalty programme for all credit cardholders of the Bank and expanded its retailers' network. With every purchase, either online or at a retailer, customers receive bonus points that can be cashed upon their request under the terms of the programme. In 2014, the Bank reported the distribution of bonuses worth over BGN 3 million to loyal cardholders.

In 2014, Postbank reinforced its leadership position in the market of corporate factoring services for export-oriented customers or domestic merchants in Bulgaria. It has successfully attracted both new corporate clients and new partners of its current clients to build a sustainable and profitable portfolio.

Sustainable development

In January 2014, just a month after the launch of its strategic partnership with UNICEF "The Best Start for Every Child", Postbank announced the total amount of over BGN 100 thousands raised from donations. This is the largest donation amount raised in a month through banking mechanisms available in Bulgaria. The Bank supports the UNICEF project to develop a network of maternal and child healthcare centres to provide family support in taking care of small children. In donating the customers and the employees of Postbank can opt for the preferred amount and method of donation - through ATM, in cash or via the Bank's online banking application, and all transactions related to UNICEF donations are exempt from fees. This long-term partnership has set out as its main objective to establish this model on a national level. At the end of 2014, the amount donated reached BGN 370 thousands.

In June 2014, Postbank became a major partner to the first private corporate relay race Postbank Business Run organised by "Begach" running club, where representatives of 63 companies covered in running a total of 1712 km. The route for all 428 participants ran through Business Park Sofia. Thanks to the initiative, the sum of over BGN 9 thousands was collected for the organizers' charity cause. The amount was donated to the UNICEF project in partnership with Postbank "The Best Start for Every Child"

In September 2014, Postbank joined for the second consecutive year the international initiative PARKing Day organised by Foundation Credo Bonum. During the fourth and so far largest edition of PARKing Day, the Bank organised an art bike atelier at parking spaces in front of its office at Saborna Street. The event took place in joint organisation with 1Bike – the only bike workshop in Bulgaria, whose team transformed bicycles during the event. As part of the initiative, the Bank organised a raffle for its Facebook users and gave out a unique bicycle to the lucky winner.

In September again – at the start of the school year, Postbank joined the national road safety campaign "Stop, save the child!" launched by Bulgarian National Television (BNT) and Sofia Municipality. The campaign calls to road users - drivers and pedestrians - to enhanced mutual responsibility and tolerance. Participation in the campaign is a logical continuation of the Bank's efforts in recent years to draw attention to the significant and socially responsible cause to protect human lives and prevent road accidents.

In gratitude for the support to education in the country, the American University in Bulgaria named one of its halls after Postbank. The hall is used as a venue for meetings, presentations and creativity by students in one of the most renowned universities in the country. Partnership between the two institutions is based on shared values and the belief that education is one of the best investments.

In December 2014, Postbank contributed to the Christmas decoration of Sofia, by building a beautiful arch in downtown area as a holiday gift to the capital city's residents and visitors.

During the year, Postbank continued its long-standing support and joint work with socially disadvantaged groups to boost their proactive community role. On the occasion of March 1, Postbank traditionally distributed over 10,000 handmade martenitsas as a special gift for customers, partners and employees. Martenitsas are made by socially disadvantaged people traditionally supported by the Bank at holidays such as Baba Marta and Christmas. Foundation Third Age in Rousse and Association "Future for Children with Disabilities" in Kazanlak have been partners to Postbank's initiative for more than five years, by producing Christmas cards for customers and partners of the Bank.

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

Some of the most significant achievements/awards of the Bank in 2014 are*:*

- 15 January 2014, Rumen Radushev, Head of Mortgage Lending Division at Postbank, was awarded Employee of the year by Forbes Bulgaria;
- 26 February 2014, Postbank received recognition by the Bulgarian Business Leaders Forum (BBLF) for the project Play 4 Change, devoted to the fight against human traffic, reaching 3rd place in one of the most challengeable categories;
- 27 February 2014, the European Bank for Reconstruction and Development (EBRD) recognized Postbank's contribution in financing projects for renewable energy;
- 6 March 2014, Postbank received a second recognition for the project Play 4 Change, winning the award of the public at Eventex Awards;
- 31 March 2014, the loyalty program of Postbank MyRewards is the Best bank product of 2013 according to b2b media. Since 1st of April a new partner is part of the program – when shopping in IKEA clients will receive 1 additional bonus point;
- 28 April 2014, for a fourth consecutive year, Postbank won the Best bank prize in providing custodial services to foreign and local institutional clients;
- 29 May 2014, Postbank was ranked Number 1 brand and company by EFFIE Effectiveness Index Bulgaria 2014;
- 29 May 2014, two silver EFFIE awards in the Services category for the advertising campaign Saving Mortgage Loan and in the Promotions category for the advertising campaign Shooting Star promoting MyRewards loyalty programme;
- 5 June 2014, Postbank's CFO was awarded Best Financial Director in risk and liquidity management in the third annual CFO forum, organized by EY Bulgaria and Forbes Bulgaria;
- 25 September 2014, Postbank was nominated National Champion of Bulgaria in the European Business Awards. Postbank will represent our country in the category for innovation in business with the product Saving Mortgage Loan;
- 14 November 2014, Postbank received the Best donation award for its strategic partnership with UNICEF Bulgaria (the recognition came from the Bulgarian donation forum for the project Best start for every child);
- 17 November 2014, Postbank's ad campaign for Saving Mortgage Loan ranked among the 28 most innovative in the world;
- 27 November 2014, Postbank won the award for a company giving the Best Career Start in the prestigious annual awards of Ikonomika Magazine;
- 8 December 2014, Mrs. Petia Dimitrova, was named Woman of the Year by GRAZIA Magazine in the Business category.

SHARE CAPITAL STRUCTURE

As at 31 December 2014 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.

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

MANAGEMENT BOARD

As at 31 December 2014 the Management Board consisted of the following members:

- Petia Dimitrova – Chairperson and Chief Executive Officer
- Dimitar Shoumarov – Member of the MB, Executive Director and Chief Financial Officer
- Iordan Souvandjiev – Member of the MB and Chief Risk Officer
- Asen Yagodin – Member of the MB and Executive Director

Mr. Asen Yagodin became a Member of the Management Board and Executive Director on December 23, 2014.

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

In 2014 the members of the Management Board did not receive remunerations from the Bank in their capacity of Management Board members.

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

No member of the Management 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

- **Petia Dimitrova**

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors (until 12 February 2014)

Bulgarian Business Leaders Forum (BBLF), Bulgaria – Member of the Board of Directors (until 3 July 2014)

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

Association of Banks in Bulgaria, Bulgaria – Member of the Management Board

Confederation of Employers & Industrialists in Bulgaria, Bulgaria – Member of the Management Board

American University in Bulgaria, Bulgaria – Member of the Board of Trustees

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

- **Dimitar Shoumarov**

IMO Rila EAD, Bulgaria – Member of the Board of Directors

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

IMO 03 EAD, Bulgaria – Member of the Board of Directors

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors (from 12 February 2014 to 14 October 2014)

ERB Leasing EAD, Bulgaria – Chairman of the Board of Directors (effective as of 24 September 2014)

Chief Financial Officers Club, Bulgaria – Member of the Management Board

- **Iordan Souvandjiev**

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

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

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

ERB Property Services Sofia AD, Bulgaria – Member of the Board of Directors

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

- **Asen Yagodin**

Sports Club DFS-Lokomotiv Sofia, Bulgaria – Member of the Board of Directors

Bulstrad Life Vienna Insurance Group JSC, Bulgaria – Independent member of the Supervisory Board

Bulgarian Stock Exchange – Sofia AD, Bulgaria – Chairman of the Board of Directors

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 2014.

SUPERVISORY BOARD

As at 31 December 2014 the Supervisory Board consisted of the following members:

- Theodoros Karakasis – Chairman of the Supervisory Board
- Nikolaos Aliprantis – Member
- Antonios Hassiotis – Member
- Anastasios Nikolaou – Member
- Christina Theofilidi – Member

Mr. Stavros Ioannou, Mr. Evaggelos Kavvalos and Mr. Christos Adam were members of the Supervisory board until 29 August 2014.

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

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

In 2014 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 2014

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

- **Antonios Hassiotis**

Investments AMK EOOD, Bulgaria – sole owner

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

- **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 (until 6.2.2014), Member of the Management Board (effective as of 7.02.2014)

ERB Leasing EAD, Bulgaria – Member of the Board of Directors (until 24.9.2014)

ERB Property Services Sofia AD, Bulgaria – Chairman of the Board of Directors

Bulgarian Retail Services AD, Bulgaria – Chairman of the Board of Directors

CEH Balkan Holdings Limited – Member of the Board of Directors

ERB New Europe Funding B.V., The Netherlands – Managing Director A (until March 2014)

ERB New Europe Funding II, The Netherlands – Managing Director A (until March 2014)

Eurobank Ergasias S.A., Greece – Advisor (until March 2014)

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

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

- **<u>Anastasios Nikolaou</u>**

Eurobank a.d. Beograd, Serbia – Member of the Management Board (effective as of 7.8.2014)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (effective as of 12.3.2014)

- **<u>Christina Theofilidi</u>**

Eurobank Ergasias S.A., Greece – General Manager Retail Remedial Management, Member of the Management Committee.

Eurobank Financial Planning Services S.A., Greece – Deputy Chairman of the Board of Directors

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

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

Eurobank Household Lending S.A., Greece - Member of the Board of Directors and Chief Executive Officer (until 11.7.2014)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (until 12.3.2014)

Tiresias Bank Information Systems S.A., Greece - Non-Executive Director

- **<u>Antonios Hassiotis</u>**

Investments AMK EOOD, Bulgaria – Manager

Bancpost S.A., Romania – Member of the Board of Directors and Chief Executive Officer (until 1.10.2014)

Bancpost Foundation, Romania – Member of the Board of Directors (until to 1.10.2014)

Eurobank a.d. Beograd, Serbia – Chairman of the Management Board (from 17.1.2014 to October 2014)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (from 12.3.2014 until 15.10.2014)

- **<u>Stavros Ioannou</u>**

Eurobank Ergasias S.A., Greece - General Manager Retail Banking, Member of the Executive Board and the Management Committee (until July 2014)

Eurobank Ergasias S.A., Greece – Senior General Manager Group Chief Operating Officer & International Activities, Member of the Executive Board and the Management Committee

Eurobank Business Services S.A., Greece – Member of the Board of Directors (until 21.12.2014, Deputy Chairperson of the Board of Directors (effective as of 22.12.2014)

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

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

Be – Business Exchanges S.A., Greece – Member of the Board of Directors (until 14.1.2014), Chairman of the Board of Directors (affective as of 15.1.2014)

Eurobank Household Lending S.A., Greece – Vice Chairman of the Board of Directors (until 21.7.2014)

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

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

Eurobank Financial Planning Services S.A., Greece – Chairman of the Board of Directors (until 2.10.2014)

Eurobank Remedial Services S.A., Greece – Chairman of the Board of Directors (until 1.10.2014)

Eurolife ERB Insurance Group Holdings S.A., Greece – Chairman of the Board of Directors (effective as of 9.4.2014)

ERB IT Shared Services S.A., Romania – Chairman of the Board of Directors (until 9.4.2014)

Eurobank a.d. Beograd, Serbia – Member of the Management Board

Cardlink S.A., Greece – Deputy Chairman of the Management Board

- **Evangelos Kavvalos**

Eurobank Ergasias S.A., Greece – General Manager, Member of the Management Committee (effective as of 15.1.2014)

- **Christos Adam**

Eurobank Ergasias S.A., Greece – General Manager, Chief Risk Officer, Member of the Executive Board and the Management Committee

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 – Chairman of the Board of Directors

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

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

Bancpost S.A., Romania – Member of the Board of Directors

Eurolife ERB General Insurance S.A., Greece – Member of the Board of Directors (effective as of 17.2.2014)

Eurolife ERB Life Insurance S.A., Greece – Member of the Board of Directors (effective as of 17.2.2014)

- **Nikolaos Aliprantis**

Eurobank Ergasias S.A., Greece – Assistant General Manager (until 21.7.2014)

Eurobank Ergasias Leasing S.A., Greece – Member of the Board of Directors (until 16.7.2014)

Eurobank A.D. Beograd, Serbia – Member of the Management Board (until 18.9.2014)

PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (from 12.3.2014 to 29.5.2014)

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 2014.

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

GROUP STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2014 and therefore no consolidated financial statements are prepared at this entity level.

OBJECTIVES FOR 2015

In 2015 the main objectives of the Bank will be to maintain its leading position in the market and building a long-term relationship with the clients, based on mutual trust. The aim of the management to answer the continuously increasing customer expectations as well as the need to provide better customer service necessitated a change in the retail banking model. The new model will be aimed at providing specialized services to each customer segment, sale of innovative solutions, rather than simple products, and expansion of the sales channels and customer access. New specialized centers for small business customers, mortgage lending and affluent clients will be opened in the biggest cities. The training of the employees will be expanded in order to increase their qualification, efficiency and motivation. The alternative sales and service channels will be further developed as also the capabilities of the online banking.

The forecast for 2015 show that the corporate lending will be the fastest growing segment and the Bank intends to increase its market share. In 2015 a new structure of Corporate Banking Division will be established and the network of business centers will be expanded.

The decrease of the cost of funds will allow the Bank to offer competitive prices on its loans, while at the same time maintaining a prudent risk appetite. The strong capital adequacy and liquidity ratios provide an opportunity to increase the interest earning assets and to improve the profitability of the Bank.

Increasing the number of current accounts, attracting new clients and deepening the relationship with the existing ones will play a major role for increasing the fees and commissions income.

Gaining the trust of the clients requires a flawless customer service through multiple channels as well as listening to their opinion. The long-term strategy of the Bank remains unchanged - to be the bank of first choice for its customers. The Bank will continue to provide 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.

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

30 March 2015
Sofia, Bulgaria

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

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

Income statement

	Notes	Year ended 31 December	
		2014	2013
Interest and similar income	1	353,933	370,747
Interest and similar charges	1	(142,650)	(175,024)
Net interest income		**211,283**	**195,723**
Fee and commission income	2	73,953	73,647
Fee and commission expense	2	(14,214)	(16,733)
Net fee and commission income		**59,739**	**56,914**
Dividend income		619	621
Other operating income	3	234	179
Net trading income/(expense)	4	579	(50)
Gains less losses from trading securities	12	513	526
Gains less losses and impairment of securities available for sale	14	(1,215)	(4,601)
Repossessed collateral impairment	V.1.6.	(568)	(2,236)
Other operating expenses	5	(126,456)	(125,309)
Deposit Insurance Fund expense		(20,974)	(20,018)
Impairment charge for credit losses	7	(122,981)	(80,885)
Profit before income tax		**773**	**20,864**
Income tax expense	8	(96)	(2,371)
Profit for the year		**677**	**18,493**

The Financial statements were authorized by the management on 30 March 2015.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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

Milka Damianova
Registered Auditor

31 March 2015

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

ЮРОБАНК БЪЛГАРИЯ АД Postbank ЦУ София

СПЕЦИАЛИЗИРАНО ОДИТОРСКО ПРЕДПРИЯТИЕ "ПрайсуотърхаусКупърс Одит" ООД София Рег. №085

The following notes set out on pages 19 to 85 form an integral part of these financial statements

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

Statement of comprehensive income	**Notes**	**Year ended 31 December**			
		2014		**2013**	
Profit for the year			**677**		**18,493**
Items that are or may be reclassified subsequently to profit or loss:			***(4,468)***		***7,616***
Available for sale securities					
-net changes in fair value, net of tax	9	476		3,448	
-transfer of (profit)/ loss to net profit on sale	9	(4,944)		4,168	
Items that will not be reclassified to profit or loss:			***171***		***(344)***
Change in FV of property, plant and equipment, net of tax		-		(139)	
Remeasurements of post-employment benefit obligations, net of tax		171		(205)	
Other comprehensive (loss)/income for the year	**9**		**(4,297)**		**7,272**
Total comprehensive (loss)/income for the year			**(3,620)**		**25,765**

The Financial statements were authorized by the management on 30 March 2015.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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

Milka Damianova
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

31 March 2015

The following notes set out on pages 19 to 85 form an integral part of these financial statements

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

Balance sheet	Notes	As at 31 December	
		2014	2013
Assets			
Cash and balances with the Central Bank	10	526,711	700,685
Loans and advances to banks	11	1,487,226	846,121
Financial assets held for trading	12	58,794	17,014
Loans and advances to customers	13	3,833,994	3,882,517
Investment securities available-for-sale	14	130,514	135,901
Derivative financial instruments	20	2,365	2,649
Investment property	15	876	876
Property, plant and equipment	16	43,140	54,244
Intangible assets	17	35,009	33,195
Current income tax recoverable		485	1,817
Other assets	18	19,231	18,381
Total assets		**6,138,345**	**5,693,400**
Liabilities			
Deposits from banks	19	18,860	68,852
Derivative financial instruments	20	4,557	7,200
Due to customers	21	5,077,273	4,520,079
Debt issued and other borrowed funds	22	180,330	240,193
Deferred income tax liabilities	23	2,344	3,770
Provisions for other liabilities and charges	24	5,460	2,753
Retirement benefit and other obligations	25	6,114	3,299
Other liabilities	26	25,909	26,136
Total liabilities		**5,320,847**	**4,872,282**
Shareholders' equity			
Share capital	27	452,753	452,753
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		82,224	85,844
Total shareholders' equity		**817,498**	**821,118**
Total shareholders' equity and liabilities		**6,138,345**	**5,693,400**

The Financial statements were authorized by the management on 30 March 2015.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

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

Milka Damianova
Registered Auditor
31 March 2015

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

Юробанк България ЦУ

Специализирано одиторско предприятие "Прайсуотърхаус Купърс Одит" ООД София Рег. №085

The following notes set out on pages 19 to 85 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)	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2013	**452,753**	**2,374**	**(3,115)**	**282,521**	**60,820**	**795,353**
Net gain recognised directly in OCI	-	-	7,616	-	-	**7,616**
Impairment of property, plant and equipment	-	(139)	-	-	-	**(139)**
Remeasurement on post-employment benefit obligations	-	-	-	-	(205)	**(205)**
Profit for the year	-	-	-	-	18,493	**18,493**
Total comprehensive income for the year 2013	**-**	**(139)**	**7,616**	**-**	**18,288**	**25,765**
Transfer to retained earnings	-	(4)	-	-	4	-
Balance at 31 December 2013	**452,753**	**2,231**	**4,501**	**282,521**	**79,112**	**821,118**

(Continued on the next page)

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

Statement of changes in shareholders' equity (continued)

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve (deficit)	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2014	**452,753**	**2,231**	**4,501**	**282,521**	**79,112**	**821,118**
Net gain recognised directly in OCI	-	-	(4,468)	-	-	**(4,468)**
Impairment of property, plant and equipment	-	-	-	-	-	-
Remeasurement on post-employment benefit obligations	-	-	-	-	171	**171**
Profit for the year	-	-	-	-	677	**677**
Total comprehensive income for the year 2014	-	-	**(4,468)**	-	**848**	**(3,620)**
Transfer to retained earnings	-	-	-	-	-	-
Balance at 31 December 2014	**452,753**	**2,231**	**33**	**282,521**	**79,960**	**817,498**

The Financial statements were authorized by the management on 30 March 2015.

Petia Dimitrova
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PricewaterhouseCoopers Audit OOD

31 March 2015

The following notes set out on pages 19 to 85 form an integral part of these financial statements

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

Statement of cash flows

	Year ended 31 December	
	2014	**2013**
Cash flow from operating activities		
Interest received	362,743	390,195
Interest paid	(163,223)	(164,062)
Dividends received	619	621
Fees and commission received	74,208	73,744
Fees and commission paid	(13,345)	(15,709)
Amounts paid to and on behalf of employees	(57,983)	(59,217)
Net trading and other income received	1,108	1,920
Other operating expenses paid	(66,887)	(75,782)
Tax paid	(1,530)	(2,500)
Cash from operating activities before changes in operating assets and liabilities	**135,710**	**149,210**
Changes in operating assets and liabilities		
Net (increase)/decrease in reserve with the Central Bank	(25,817)	2,251
Net (increase) in trading securities	(41,740)	(10,281)
Net (increase)/decrease in loans and advances to customers	(86,207)	66,252
Net (increase)/decrease in other assets	(1,179)	3,287
Net (decrease) in derivatives instruments	(84)	(60)
Net (decrease) in due to other banks	(49,983)	(36,784)
Net increase in amounts due to customers	575,684	92,638
Net increase in other liabilities	878	3,815
Net cash flow from operating activities	**507,262**	**270,328**

(Continued on the next page)

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

Statement of cash flows (continued)

	Year ended 31 December	
Cash flow from investing activities	**2014**	**2013**
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(10,273)	(9,590)
Purchase of investment securities (Note 14)	(43,784)	(17,278)
Proceeds from disposal of property and equipment	2	191
Proceeds from disposal of investment securities (Note 14)	47,965	47,404
Net cash flow (used in)/from investing activities	**(6,090)**	**20,727**
Cash flow from financing activities		
Long-term financing received	44,703	55,852
Long-term debt repaid	(104,615)	(83,761)
Net cash used in financing activities	**(59,912)**	**(27,909)**
Effect of exchange rate changes on cash and cash equivalents	54	83
Net change in cash and cash equivalents	**441,314**	**263,229**
Cash and cash equivalents at beginning of year	1,353,927	1,090,698
Cash and cash equivalents at end of year (Note 28)	**1,795,241**	**1,353,927**

The Financial statements were authorized by the management on 30 March 2015.

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Milka Damianova
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31 March 2015

The following notes set out on pages 19 to 85 form an integral part of these financial statements

(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 181 network locations and 7 business centres (2013: 184 network locations and 7 business centres). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,480 people (2013: 2,567).

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 as adopted 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 2014 and 2013. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

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.

Position of the Group

Since May 2010, Greece has undertaken significant structural reforms to restore competitiveness and promote economic growth through a programme agreed with the EU, the ECB and the IMF (“the Institutions”). This had led to primary fiscal surpluses in 2013 and 2014, but also to reform fatigue and social unrest. Following the recent parliamentary elections of 25 January, the new government negotiated a four-month extension of the Master Financial Assistance Facility Agreement (MFFA), the purpose of which is the successful completion of the review on the basis of the conditions in the current arrangement, making best use of the given flexibility which will be considered jointly with the Greek authorities and the Institutions. This extension would also serve to bridge the time for discussions on a possible follow-up arrangement between the Euro Group, the Institutions and Greece. On 23 February, the Greek government presented to the Institutions, a first list of reform measures to be further specified and agreed by the end of April 2015. Greece’s access to the last instalment of the previous arrangement and/or to further Eurozone funding is conditional, inter alia, to the Institutions approving the conclusion of the review of the extended arrangement. Until such review is satisfactorily completed, any securities issued or guaranteed by the Hellenic Republic are deemed not eligible for ECB MRO (Main Refinancing Operations) funding. These conditions create material uncertainties on the Greek macroeconomic environment, with potentially adverse effects on the liquidity and solvency of the Greek Banking sector.

Liquidity, of the whole Greek banking sector, was negatively affected in the beginning of 2015 due to the combined effect of deposit withdrawals, reduction of wholesale secured funding and the decision of ECB to lift the waiver of minimum credit rating requirements for marketable instruments issued or guaranteed by Hellenic Republic (i.e. Greek government bonds and Pillar 2 & 3 of the Law 3723/2009). As a result Greek banks reverted to the fallback funding source, the Emergency Liquidity Assistance (ELA) mechanism to cover their short term liquidity needs. In this context, the Greek banking system and Eurobank specifically, still maintain ample liquidity buffers to correspond to persevering adverse liquidity conditions and the Eurosystem has demonstrated its commitment to support Greek banks as long as Greece remains within the EU support program.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Notwithstanding, the above liquidity pressures and increase of Greek sovereign risks, the capital adequacy position of Eurobank currently stands strong, following April's 2014 Share Capital Increase of € 2.86 billion. More specifically, the CET 1 ratio of the Group as of 31 December 2014 stood at 16.2%. Furthermore, the ECB comprehensive assessment results, as published in October 2014, reaffirmed the solid capital position of the Group stating the lack of any capital shortfall, in both the base and the adverse scenarios.

Position of the Bank

As at 31 December 2014, Eurobank Bulgaria relies on funding predominantly from locally collected deposits, its own capital base and international financial institutions funding. As disclosed in Notes 11 and 29, as at year end the Bank had a significant exposure to the Parent in Greece, the majority of which was collateralized by high quality marketable securities in the form of reverse repurchase agreements. Subsequent to year end and as of the date of signing of these financial statements, the Bank has no material direct exposure to the Parent bank and can be considered ring-fenced from the potential risks described above.

Considering all of the above, 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.

Related party transactions - Eurobank Ergasias S.A. shareholding structure

Following the successful completion of the recapitalization of the Eurobank Ergasias S.A. from the European Financial Stability Facility (E.F.S.F.) and the introduction of its new shares on the Athens Stock Exchange on June 19, 2013 the E.F.S.F. acquired 3,789,317,358 ordinary shares with voting rights issued by Eurobank Ergasias SA, representing 98.56% of the ordinary voting shares. Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the percentage of the voting rights held by HFSF increased to 95.23%.

The BoG, following the assessment of Eurobank's capital needs, concluded on 6 March 2014 and notified Eurobank that its Core Tier I capital should increase by EUR 2,945 million. Eurobank Ergasias S.A. with its letter to BoG on 24 March 2014, submitted its capital enhancement plan whereby revised its capital actions providing for an additional positive impact on regulatory capital of EUR 81 million and stated that it intends to cover the remaining capital needs of EUR 2,864 million through a share capital increase.

Following the completion of the Eurobank's share capital increase fully covered by private, institutional and other investors, the percentage of the ordinary shares with voting rights held by the HFSF decreased from 95.23% to 35.41%. In addition, in the context of the Law 3864/2010 (the 'HFSF Law') as amended by Law 4254/2014, the HFSF's voting rights in the Eurobank's General Assemblies have been switched to restricted ones. Accordingly, as of early May, the HFSF is no more the controlling shareholder of the Group but is considered to have significant influence over it. Therefore, the HFSF is considered to be a related party to the Group, whereas Greek Banks significantly influenced by HFSF, within the context of the Greek Banks' recapitalization, are not regarded as such.

(a) The following new standards and amendments to existing standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU), apply from 1 January 2014:

IAS 27, Amendment - Separate Financial Statements

The amendment is issued concurrently with IFRS 10 'Consolidated Financial Statements' and together they supersede IAS 27 'Consolidated and Separate Financial Statements'. The amendment prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

and associates when an entity prepares separate financial statements.
The adoption of the amendment had no impact on the Bank's financial statements.

IAS 28, Amendment - Investments in Associates and Joint Ventures

The amendment replaces IAS 28 'Investments in Associates'. The objective of the amendment is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures following the publication of IFRS 11. An exemption from applying the equity method is provided, when the investment in associate or joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, unit trust and similar entities including investment –linked insurance funds. In this case, investments in those associates and joint ventures may be measured at fair value through profit or loss.
The adoption of the amendment had no impact on the Bank's financial statements.

IAS 32, Amendment - Offsetting Financial Assets and Financial Liabilities

The amendment clarifies the requirements for offsetting financial assets and financial liabilities.
The adoption of the amendment had no impact on the Bank's financial statements.

IAS 36, Amendment - Recoverable Amount Disclosures for Non-Financial Assets

The amendment restricts the requirement to disclose the recoverable amount of an asset or cash generating unit only to periods in which an impairment loss has been recognized or reversed.
It also includes detailed disclosure requirements applicable when an asset or cash generating unit's recoverable amount has been determined on the basis of fair value less costs of disposal and an impairment loss has been recognized or reversed during the period.
The adoption of the amendment had no impact on the Bank's financial statements.

IAS 39, Amendment - Novation of derivatives and continuation of hedge accounting

The amendment provides relief from discontinuing hedge accounting when, as a result of laws and regulations, a derivative designated as a hedging instrument is novated to effect clearing with a central counterparty and specific criteria are met.
The adoption of the amendment had no impact on the Bank's financial statements.

IFRS 10, Consolidated Financial Statements

IFRS 10 replaces the part of IAS 27 'Consolidated and Separate Financial Statements' that deals with consolidated financial statements and SIC 12 'Consolidation-Special Purpose Entities'. Under IFRS 10, there is a new definition of control, providing a single basis for consolidation for all entities. This basis is built on the concept of power over the investee, variability of returns from the involvement with the investee and their linkage, replacing thus focus on legal control or exposure to risks and rewards, depending on the nature of the entity.
The adoption of IFRS 10 had no impact on the Bank's financial statements.

IFRS 11, Joint Arrangements

IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC-13 'Jointly Controlled Entities- Non – monetary Contributions by Ventures' and establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.
Under IFRS 11, there are only two types of joint arrangements, joint operations and joint ventures and their classification is based on the parties' rights and obligations arising from the arrangement, rather than its legal form.
The equity method of accounting is now mandatory for joint ventures. The option to use the proportionate consolidation method to account for joint ventures is no longer allowed. In joint operations, each party that has joint control of the arrangement recognizes in its financial statements, in relation to its involvement in the joint operation, its assets, liabilities and transactions, including its share in those arising jointly.
The adoption of IFRS 11 had no impact on the Bank's financial statements.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 specifies the disclosures required in annual financial statements to enable users of financial statements to evaluate the nature of and risks associated with the reporting entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities.

The adoption of IFRS 12 had no impact on the Bank's financial statements.

IFRS 10, 11 and 12 Amendments - Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance

The amendments clarify the transition guidance in IFRS 10 and provide additional transition relief in IFRS 10, 11 and 12, requiring adjusted comparative information to be limited only to the preceding comparative period. In addition, for disclosures related to unconsolidated structured entities, the requirement to present comparative information for periods before IFRS 12 is first applied, is removed.

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

IFRS 10, 12 and IAS 27 Amendments - Investment Entities

The amendments require that 'investment entities', as defined below, account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss. The only exception would be subsidiaries that are considered an extension of the investment entity's investing activities. Under the amendments an 'Investment entity' is an entity that:

(a) obtains funds from one or more investors for the purpose of providing those investors with investment management services;

(b) commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

(c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The amendments also set out disclosure requirements for investment entities.

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

(b) A number of new standards, amendments and interpretations to existing standards are effective after 2014, as they have not yet been endorsed for use in the European Union or have not been early applied by the Bank. Those that may be relevant to the Bank are set out below:

IAS 1, Amendment - Disclosure initiative (effective 1 January 2016, not yet endorsed by EU)

The amendment clarifies guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

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

IAS 16 and IAS 38, Amendments - Clarification of Acceptable Methods of Depreciation and Amortization (effective 1 January 2016, not yet endorsed by EU)

The amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate and it also clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.

The adoption of the amendments is not expected to impact the Bank's financial statements.

IAS 19, Amendment - Defined Benefit Plans: Employee Contributions (effective 1 January 2016)

The amendment clarifies the accounting for post- employment benefit plans where employees or third parties are required to make contributions which do not vary with the length of employee service, for example, employee contributions calculated according to a fixed percentage of salary. The amendment allows these contributions to be deducted from pension expense in the year in which the related employee service is delivered, instead of attributing them to periods of employee service. The adoption of the amendment is not expected to impact the Bank's financial statements.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

IAS 27, Amendment –Equity Method in Separate Financial Statements (effective 1 January 2016, not yet endorsed by EU)

This amendment allows entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements and clarifies the definition of separate financial statements. In particular, separate financial statements are those presented in addition to consolidated financial statements or in addition to the financial statements of an investor that does not have investments in subsidiaries but has investments in associates or joint ventures in which the investments in associates or joint ventures are required by IAS 28 Investments in Associates and Joint Ventures to be accounted for using the equity method.

The adoption of the amendment is not expected to impact the Bank’s financial statements.

IFRS 9, Financial Instruments (effective 1 January 2018, not yet endorsed by EU)

In July 2014, the IASB published the final version of IFRS 9 which replaces IAS 39 ‘Financial Instruments’. IFRS 9 sets out revised requirements on the classification and measurements of financial assets, addresses the reporting of fair value changes in own debt when designated at fair value, replaces the existing incurred loss model used for the impairment of financial assets with an expected credit loss model and incorporates changes to hedge accounting.

The IASB has previously published versions of IFRS 9 that introduced new classification and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). The July 2014 publication represents the final version of the Standard, replaces earlier versions of IFRS 9 and completes the IASB’s project to replace IAS 39 Financial Instruments: Recognition and Measurement.

Classification and measurement

IFRS 9 applies one classification approach for all types of financial assets, according to which the classification and measurement of financial assets is based on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. A business model refers to how an entity manages its financial assets so as to generate cash flows, by collecting contractual cash flows, or selling financial assets or both. Upon assessment, each financial asset will be classified in one of the three categories: amortized cost, fair value through profit or loss and fair value through other comprehensive income.

With regard to financial liabilities, the treatment followed in IAS 39 is carried forward to IFRS 9 essentially unchanged. However, IFRS 9 requires fair value changes of liabilities designated at fair value under the fair value option which are attributable to the change in the entity’s own credit risk to be presented in other comprehensive income rather than in profit or loss, unless this would result in an accounting mismatch.

Impairment of financial assets

Under IFRS 9 the same impairment model applies to all financial instruments which are subject to impairment accounting.

The new impairment model is forward -looking and requires, the recognition of expected credit losses, in contradiction with IAS 39, that required a trigger event to have occurred before credit losses were recognized. IFRS 9 includes a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. Accordingly, upon initial application of IFRS 9, for financial assets that are not credit-impaired and for which no significant increase in credit risk since initial recognition is observed, the respective credit losses will be recognized in profit or loss and will be based on the 12-month expected credit losses. However, if the credit risk of the financial assets increases significantly since initial recognition, a provision is required to be recognized for credit losses expected over their remaining lifetime (‘lifetime expected losses’).

For financial assets that are credit-impaired on origination, the expected life time credit losses will be applied.

In measuring expected credit losses information about past events, current conditions and forecasts of future conditions should be considered.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Hedge accounting

IFRS 9 introduces a reformed model for hedge accounting, seeking to more closely align hedge accounting with risk management activities so as to better reflect these activities in the entities' financial statements. Under the new model, new hedge effectiveness requirements apply, discontinuation of hedge accounting is allowed only under specific circumstances, and a number of items that were not eligible under IAS 39 as hedging instruments or hedged items are now eligible.

The Bank is currently examining the impact of IFRS 9 on its financial statements, which is impracticable to quantify as at the date of the publication of these financial statements.

IFRS 10, IFRS 12 and IAS 28, Amendments - Investment Entities: Applying the Consolidation Exception (effective 1 January 2016, not yet endorsed by EU)

These amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRS 10 and IAS 28, Amendments- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by IASB, not yet endorsed by EU)

These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business, whereas a partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are in a subsidiary. In January 2015, the IASB tentatively decided to include necessary changes to IFRS 10 and IAS 28 within a forthcoming Exposure Draft and accordingly postponed the effective date of the amendments (previously 1 January 2016).

The adoption of the amendments is not expected to impact the Bank's financial statements.

IFRS 11, Amendment – Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016, not yet endorsed by EU)

This amendment requires an investor to apply the principles of business combination accounting when it acquires an interest in a joint operation that constitutes a 'business'.

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

IFRS 15, Revenue from Contracts with Customers (effective 1 January 2017, not yet not yet endorsed by EU)

IFRS 15 establishes a single, comprehensive revenue recognition model to be applied consistently to all contracts with customers, determining when and how much revenue to recognize, but has no impact on income recognition related to financial instruments which is under the scope of IFRS 9 and IAS 39. In addition, IFRS 15 replaces the previous revenue standards IAS 18 Revenue and IAS 11 Construction contracts and the related Interpretations on revenue recognition.

The Bank is currently assessing the impact of IFRS 15, however the adoption of the standard is not expected to have a material impact on the Bank's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle (effective 1 January 2016)

The amendments introduce key changes to seven IFRSs following the publication of the results of the IASB's 2010-12 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Definition of vesting condition in IFRS 2 "Share – based Payment";
- Accounting for contingent consideration in a business combination in IFRS 3 "Business Combinations";
- Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets in IFRS 8 "Operating Segment";
- Short-term receivables and payables in IFRS 13 "Fair Value Measurement";
- Revaluation method—proportionate restatement of accumulated depreciation in IAS 16 "Property, Plant and Equipment";

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

- Key management personnel in IAS 24 “Related Party Disclosures”; and
- Revaluation method—proportionate restatement of accumulated amortization in IAS 38 “Intangible Assets”

The adoption of the amendments is not expected to impact the Bank’s financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle (effective 1 January 2015)

The amendments introduce key changes to four IFRSs following the publication of the results of the IASB’s 2011-13 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Scope exceptions for joint ventures in IFRS 3 “Business Combinations”;
- Scope of portfolio exception in IFRS 13 “Fair Value Measurement”;
- Clarifying the interrelationship between IFRS 3 “Business Combinations” and IAS 40 “Investment Property” when classifying property as investment property or owner-occupied property in IAS 40; and
- Meaning of “effective IFRSs” in IFRS 1 First-time Adoption of International Financial Reporting Standards

The adoption of the amendments is not expected to impact the Bank’s financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016, not yet endorsed by EU)

The amendments introduce key changes to four IFRSs following the publication of the results of the IASB’s 2012-14 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- Clarifying in IFRS 5 “Non-current assets held for sale and discontinued operations” that, when an asset (or disposal group) is reclassified from ‘held for sale’ to ‘held for distribution’, or vice versa, this does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such.
- Adding in IFRS 7 “Financial instruments: Disclosures” specific guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It also clarifies that the additional disclosure required by the amendments to IFRS 7, “Disclosure – Offsetting financial assets and financial liabilities” is not specifically required for all interim periods, unless required by IAS 34.
- Clarifying in IAS 19 “Employee benefits” that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, and not the country where they arise.
- Clarifying in IAS 34 “Interim financial reporting” what is meant by the reference in the standard to ‘information disclosed elsewhere in the interim financial report’.

The adoption of the amendments is not expected to impact the Bank’s financial statements.

IFRIC 21, Levies (effective 1 January 2015)

IFRIC 21 Levies clarifies that an entity recognizes a liability for a levy that is not income tax when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, for example a specified level of revenue, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached.

The adoption of the interpretation is not expected to impact the Bank’s financial statements.

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. Except as indicated, financial information presented in BGN has been rounded to the nearest thousand.

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

Notes to the financial statements (continued)

B. Foreign currencies transactions (continued)

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.

At 31 December 2014, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2013: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.62173 (2013: BGN 1 for USD 0.7047).

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 rate method.

The effective interest rate 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 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 the price within the bid-ask spread that is most

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

Notes to the financial statements (continued)

E. Financial assets (continued)

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

representative of fair value in the circumstances used to measure fair value. 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 prices. Available-for-sale investments are initially recognised at fair value plus transaction costs and are subsequently re-measured at fair value based on the price within the bid-ask spread that is most representative of fair value in the circumstances used to measure fair value 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.

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.

Interest calculated using the effective interest rate method is recognised in the income statement.

The fair values of quoted investments in active markets are based on the price within the bid-ask spread that is most representative of fair value in the circumstances used to measure fair value.

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.

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

Notes to the financial statements (continued)

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 rate method.

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 require 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 rate 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 rate 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.

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

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

Notes to the financial statements (continued)

H. Impairment of financial assets (continued)

(a) Assets carried at amortized cost (continued)

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 an objective evidence of impairment.

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.

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).

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

Notes to the financial statements (continued)

I. Property, plant and equipment (continued)

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 2013.

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.

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 (Note 17) include the employment costs of those directly involved in creating

Notes to the financial statements (continued)

J. Intangible assets (continued)

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 rate 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.

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

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

Notes to the financial statements (continued)

O. Current tax and deferred income tax (continued)

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.

Provision has been made for the actuarial value of the lump sum payable on retirement using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The obligation is calculated as the present value of the estimated future cash outflows using interest rates of Bulgarian government bonds at the end of the reporting period. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations. Actuarial gains and losses that arise in calculating the Bank's obligation are recognised directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Past service costs and interest expense are recognised immediately in the income statement.

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. Statutory reserve and dividends

According to Article 246 of the Bulgarian Commerce Act, the Bank shall set aside at least one tenth of its profit in a Statutory reserve fund, until it reaches one tenth or more of the Bank's equity. Disbursement from the reserve fund may be made only to cover losses from the current or previous year. As per Bank legislation, funds accumulated in the Statutory Reserve account cannot be distributed as dividends without the consent of the Local Bank Regulator.

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

Notes to the financial statements (continued)

R. Statutory reserve and dividends (continued)

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.

S. Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when and only when there is a legally enforceable right to set off the recognised amounts and there is an intention either 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 2013.

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. Risk taking is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's intent 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.

The Supervisory Board of the Bank (SB) has delegated to the Risk Committee the role of approving all strategic risk management decisions. The Risk Committee is in charge of monitoring the quantitative and qualitative aspects of all credit, market, liquidity and operational risks. In addition, internal audit is responsible for the independent review of risk management and the control environment. It is currently complemented, by the Risk function.

The risk management policy reflects the Bank's objectives. It is therefore not intended that large risk positions are maintained to increase short-term profitability. The objective is achieving 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 Internal Audit function, which reports directly to the Supervisory Board level, through the Audit Committee, complements the risk management framework acting as the independent review layer, focusing on the effectiveness of the risk management framework and control environment.

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 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.

(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)

1.1. 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 in 10 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.

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.

(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)

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 main types of collaterals that the Bank accepts are as follows:

- Real estate
- Pledge on movable property
- Pledge on commercial enterprises
- Pledge on receivables
- Securities
- Cash
- Letters of guarantees
- Personal guarantees /Sureties/
- Other eligible collaterals

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

(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 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.

(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)

(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 2014 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 (2013: 95%); 3% represents investments in debt securities (2013: 2%).

	As at 31 December	
	2014	**2013**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	1,487,226	846,121
Loans and advances to customers:		
- Mortgages	1,246,020	1,190,305
- Consumer lending (including credit cards)	600,872	650,178
- Small Business lending	625,246	686,736
- Corporate lending	1,361,856	1,355,298
Trading assets - debt securities	57,889	14,693
Derivative financial instruments	2,365	2,649
Investment securities- available-for-sale-debt securities	124,696	123,077
Other assets	11,417	9,720
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	96,871	85,739
Letters of credit	23,614	25,271
Loan commitments	716,187	595,458
Total	**6,354,259**	**5,585,245**

(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

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2014**	**2013**
Neither past due nor impaired	2,873,727	2,872,220
Past due but not impaired	459,606	585,676
Impaired	975,009	806,244
Gross	**4,308,342**	**4,264,140**
Less: allowance for impairment	(474,348)	(381,623)
Net	**3,833,994**	**3,882,517**
Included in gross loans and advances are:		
Past due more than 90 days	826,431	744,995

The total impairment provision for loans and advances is BGN 474,348 thousand (2013: BGN 381,623 thousand) of which BGN 188,085 thousand (2013: BGN 126,711 thousand) represents the individually impaired loans provision and the remaining amount of BGN 286,263 thousand (2013: BGN 254,912 thousand) represents the portfolio provision. Further information of the impairment allowance for loans and advances to customers is provided in Note 13. During 2014, the Bank’s total net loans and advances decreased by 1.2%. 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.

In 2014 net loans and advances were affected by BGN 17,391 thousand (2013: BGN 120,962 thousand) IMO recoveries received on realized loan collaterals. IMO is a related company of the Bank.

(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 2014 can be assessed by reference to the internal standard grading system (see V.1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2014**	**As at 31 December 2013**
Mortgages	966,602	938,771
Corporate Lending	988,442	939,128
Consumer Lending	504,540	532,878
SBB Lending	396,516	428,299
Total Satisfactory risk	**2,856,100**	**2,839,076**
Watch list (Corporate Lending)	17,627	33,144

(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

31 December 2014	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	46,742	75,650	30,900	85,193	**238,485**
Past due 30 - 89 days	24,655	55,728	25,938	95,046	**201,367**
Past due 90 - 179 days	-	19,305	-	449	**19,754**
Total	**71,397**	**150,683**	**56,838**	**180,688**	**459,606**

31 December 2013	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	68,390	86,590	46,999	183,751	**385,730**
Past due 30 - 89 days	21,705	59,962	42,210	41,904	**165,781**
Past due 90 - 179 days	-	17,150	-	17,015	**34,165**
Total	**90,095**	**163,702**	**89,209**	**242,670**	**585,676**

(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 V.1.1.

31 December 2014	**Consumer lending**	**Mortgages**	**SBB lending**	**Total**
Past due up to 29 days	2,959	13,650	9,211	**25,820**
Past due 30 - 89 days	586	7,010	2,629	**10,225**
Past due 90 - 179 days	9,812	6,713	3,208	**19,733**
Past due less than 1 year	11,216	28,720	1,820	**41,756**
Past due over 1 year	131,429	128,006	104,297	**363,732**
Collectively assessed for impairment	**156,002**	**184,099**	**121,165**	**461,266**

31 December 2013	**Consumer lending**	**Mortgages**	**SBB lending**	**Total**
Past due up to 29 days	-	534	1,410	**1,944**
Past due 30 - 89 days	511	336	4,498	**5,345**
Past due 90 - 179 days	9,285	5,670	3,229	**18,184**
Past due less than 1 year	15,727	20,500	4,796	**41,023**
Past due over 1 year	115,198	108,400	100,939	**324,537**
Collectively assessed for impairment	**140,721**	**135,440**	**114,872**	**391,033**

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.

(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

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 V.1.1.

31 December 2014	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	-	99,663	**99,663**
Past due 30 - 89 days	-	51,032	**51,032**
Past due 90 - 179 days	12,506	6,582	**19,088**
Past due less than 1 year	11,735	16,266	**28,001**
Past due over 1 year	162,999	152,960	**315,959**
Individually impaired loans	**187,240**	**326,503**	**513,743**

31 December 2013	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	-	77,793	**77,793**
Past due 30 - 89 days	-	10,703	**10,703**
Past due 90 - 179 days	12,134	11,589	**23,723**
Past due less than 1 year	17,980	35,487	**53,467**
Past due over 1 year	148,595	100,930	**249,525**
Individually impaired loans	**178,709**	**236,502**	**415,211**

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 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.

(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)

Information about collateral at 31 December 2014 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Reverse repurchase agreements	Total
Unsecured loans	280,752	588,442	93,259	53,377	-	**1,015,830**
Loans guaranteed by other banks	96,183	-	3,347	-	-	**99,530**
Loans guaranteed by other parties, including credit insurance	11,031	-	414	-	-	**11,445**
Loans collateralised by:						
- residential real estate	115,052	-	180,355	1,185,649	-	**1,481,056**
- other real estate	649,412	-	332,013	6,666	-	**988,091**
- cash deposits	9,531	4,381	5,781	328	-	**20,021**
- other assets	198,300	8,049	10,077	-	1,595	**218,021**
Total loans and advances to customers	**1,360,261**	**600,872**	**625,246**	**1,246,020**	**1,595**	**3,833,994**

Information about collateral at 31 December 2013 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Reverse repurchase agreements	Total
Unsecured loans	163,225	638,038	92,610	17,898	-	**911,771**
Loans guaranteed by other banks	35,893	-	4,796	-	-	**40,689**
Loans guaranteed by other parties, including credit insurance	36,447	-	184	-	-	**36,631**
Loans collateralised by:						
- residential real estate	130,822	-	218,928	1,165,501	-	**1,515,251**
- other real estate	554,284	-	318,410	2,706	-	**875,400**
- cash deposits	21,471	4,644	4,130	245	-	**30,490**
- other assets	411,752	7,496	47,678	3,955	1,404	**472,285**
Total loans and advances to customers	**1,353,894**	**650,178**	**686,736**	**1,190,305**	**1,404**	**3,882,517**

The disclosure above represents the lower of the carrying value of the loan or collateral taken; the remaining part is disclosed within the unsecured exposures. The carrying value of loans was allocated based on liquidity of the assets taken as collateral.

(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

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:

				31 December 2014	
Rating	**Trading securities**	**Investment securities, available for sale**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	1,776	-	**1,776**
A- to A+	-	-	17,254	-	**17,254**
BBB- to BBB+	57,889	112,328	-	-	**170,217**
BB- to BB+	-	-	54	-	**54**
Lower than BB-	-	-	1,468,075	1,730	**1,469,805**
Unrated	-	12,368	67	635	**13,070**
Total	**57,889**	**124,696**	**1,487,226**	**2,365**	**1,672,176**

Investment securities available for sale include impaired corporate bonds with carrying amount of BGN 6,548 thousand (2013: BGN 8,318 thousand). The impairment provisions as of end of 2014 amounted to BGN 10,063 thousand (2013: BGN 4,832 thousand).

				31 December 2013	
Rating	**Trading securities**	**Investment securities available for sale**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	59	-	**59**
A- to A+	-	-	2,299	-	**2,299**
BBB- to BBB+	14,693	99,030	736	-	**114,459**
BB- to BB+	-	-	12	-	**12**
Lower than BB-	-	3,751	842,761	1,560	**848,072**
Unrated	-	20,296	254	1,089	**21,639**
Total	**14,693**	**123,077**	**846,121**	**2,649**	**986,540**

(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)
1.6. 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	**2014**	**2013**
Commercial property	447	493
Residential property	3,706	4,159
Land	547	597
Total	**4,700**	**5,250**

The Bank has written down its repossessed collaterals to fair value less costs to sell. The fair value belongs to level 3 measurements in the fair value hierarchy.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2014**	**Valuation technique**	**Input**	**Range (BGN) (weighted average) 2014**	**Range (BGN) (weighted average) 2013**	**Connection between the unobservable input and FV**
Land	547	Market comparison approach	price per m2	0.54 - 36.18 (1.10)	0.41 - 2.54 (0.81)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	3.24 - 74.68 (45.14)	84	A significant increase in price per m2 would result in a higher fair value
Residential	3,706	Market comparison approach	price per m2	84.00 - 1555.00 (765)	78.00 - 2015.00 (855.00)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	179	207	A significant increase in price per m2 would result in a higher fair value
Mixed	447	Market comparison approach	price per m2	82.14 - 1466.87 (370.05)	782.33 - 1466.87 (957.82)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	45	49.99 - 122.00 (86.95)	A significant increase in price per m2 would result in a higher fair value

Reconciliation of Level 3 movement:

Balance at 1 January 2014	**5,250**
Additions	18
Sales	-
Impairment	(568)
Transfers into Level 3	-
Transfers out of Level 3	-
Balance at 31 December 2014	**4,700**

The impairment loss of repossessed collaterals has been included in a separate line in the Income Statement.

(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 2014. For this table, the Bank has allocated exposures to regions based on the country of domicile of its counterparties.

	Bulgaria	Greece	Romania	Rest of Europe	Other countries	Total
Loans and advances to banks	-	1,468,075	48	14,867	4,236	1,487,226
Trading assets – debt securities	57,889	-	-	-	-	57,889
Loans and advances to customers:						
- Mortgages	1,242,561	1,064	67	999	1,329	1,246,020
- Consumer lending incl. credit cards	599,335	311	97	881	248	600,872
- Small business lending	625,226	-	20	-	-	625,246
- Corporate lending	1,361,856	-	-	-	-	1,361,856
Investment debt securities – AFS	119,923	-	4,773	-	-	124,696
Derivative financial instruments	635	1,730	-	-	-	2,365
Other assets	11,417	-	-	-	-	11,417
31 December 2014	**4,018,842**	**1,471,180**	**5,005**	**16,747**	**5,813**	**5,517,587**
31 December 2013	**4,016,649**	**845,607**	**6,751**	**6,193**	**3,577**	**4,878,777**

(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	-	-	-	-	-	1,487,226	-	1,487,226
Trading assets-debt securities	-	-	-	-	57,889	-	-	57,889
Loans and advances to customers:								
- Mortgages	-	1,246,020	-	-	-	-	-	1,246,020
- Consumer lending incl. credit cards	-	600,872	-	-	-	-	-	600,872
- Small business lending	375,150	4,220	110,178	61,798	-	804	73,096	625,246
- Corporate lending	540,470	-	395,530	147,326	2,057	51,320	225,153	1,361,856
Investment debt securities – AFS	1,605	-	7,569	1,022	112,328	2,172	-	124,696
Derivative financial instruments	45	-	412	-	-	1,908	-	2,365
Other assets	-	-	-	-	-	11,417	-	11,417
31 December 2014	**917,270**	**1,851,112**	**513,689**	**210,146**	**172,274**	**1,554,847**	**298,249**	**5,517,587**
31 December 2013	**1,027,195**	**1,844,373**	**531,046**	**198,779**	**119,951**	**898,311**	**259,122**	**4,878,777**

(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)

1.8. Offsetting Financial assets and financial liabilities

The Bank does not have offsetting assets/liabilities that fall under the scope of IAS 32, i.e. are offset on Balance Sheet when an entity has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank has master netting arrangements with counterparty banks, which are enforceable in case of default. In addition, applicable legislation allows the Bank to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. These fall in the scope of the disclosure as if they were set off in the Balance sheet. The Bank also made margin deposits as collateral for its outstanding derivative positions. The counterparty may set off the Bank's liabilities with the margin deposit in case of default.

Information about repo and reverse repo deals is disclosed in note 24.

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	**(b)**	**(c) = (a) - (b)**	**(d)**	**(c) - (d)**
Assets as of					
31 December 2014					
Derivative assets	1,730	-	1,730	(1,730)	-
Liabilities as of					
31 December 2014					
Derivative liabilities	(3,549)	-	(3,549)	3,158	(391)

	Gross amounts before offsetting in BS	Gross amounts set off in BS	Net amount after offsetting in BS	Financial or cash collateral received or given either recognised on BS or not, not offset on BS	Net amount of exposure
	(a)	**(b)**	**(c) = (a) - (b)**	**(d)**	**(c) - (d)**
Assets as of					
31 December 2013					
Derivative assets	1,560	-	1,560	(1,560)	-
Liabilities as of					
31 December 2013					
Derivative liabilities	(1,115)	-	(1,115)	1,115	-

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

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 Management Board 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 2014	
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**4,582**	(1,466)	(1,358)	7,406
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(91)**	(90)	(1)	-
Foreign exchange				
-10% depreciation of local currency	**43**	43	-	-

			31 December 2013	
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**2,399**	(829)	(857)	4,085
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(403)**	(232)	(171)	-
Foreign exchange				
-10% depreciation of local currency	**550**	550	-	-

(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 10% depreciation 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 (assets and liabilities not measured at fair value), 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.

3. Equity price risk sensitivity has been calculated by applying a 10% drop in equity prices across the board.

2.4. Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using valuation techniques that are appropriate in the circumstances, and maximise the use of relevant observable inputs and minimise the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

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

The following table presents the carrying amounts and fair values of financial assets and liabilities which are not carried at fair value on the balance sheet, analysed by the level in the fair value hierarchy into which each fair value measurement is included:

(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)

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

	At 31 December 2014				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to banks	-	1,487,226	-	**1,487,226**	**1,487,226**
Loans and advances to customers	-	-	4,110,875	**4,110,875**	**3,833,994**
Financial liabilities					
Debt issued and other borrowed funds	-	180,333	-	**180,333**	**180,330**

	At 31 December 2013				
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets					
Loans and advances to banks	-	846,121	-	**846,121**	**846,121**
Loans and advances to customers	-	-	4,081,075	**4,081,075**	**3,882,517**
Financial liabilities					
Debt issued and other borrowed funds	-	240,742	-	**240,742**	**240,193**

The assumptions and methodologies underlying the calculation of fair values of financial instruments not carried at fair value on the balance sheet date are in line with those used to calculate the fair values for financial instruments carried at fair value and are as follows:

a) 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 values are estimated by discounting future expected cash flows over the time period they are expected to be recovered, using appropriate risk-adjusted rates. Loans are grouped into homogenous assets with similar characteristics, as monitored by Management, such as product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. In estimating future cash flows, the Bank makes assumptions on expected prepayments, product spreads and timing of collateral realization. The discount rates incorporate inputs for expected credit losses and interest rates, as appropriate.

b) Debt issued and other borrowed funds
For borrowed funds which are either short term or re-priced at frequent intervals, the carrying amounts represent reasonable approximations of fair values.
The fair values of fixed rate borrowed funds are determined by discounting the expected cash flows at a risk-adjusted rate, where the Bank's own credit risk is determined using inputs indirectly observable, i.e. quoted prices of similar securities issued by the Bank or other issuers.
For other financial instruments which are short term (cash and balances with central banks, loans and advances to banks, due to central banks and other banks) or re-priced at frequent intervals (due to customers), the carrying amounts represent reasonable approximations of fair values.

(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)

2.4.2. Financial instruments measured at fair value

Trading assets, derivatives and other transactions undertaken for trading purposes, as well as available-for-sale securities and assets and liabilities designated at fair-value-through-profit-or-loss are measured at fair value by reference to quoted market prices when available. If quoted prices are not available, the fair values are estimated using valuation techniques.

These financial instruments carried at fair value are categorised into the three levels of the fair value hierarchy as at 31 December 2014 based on whether the inputs to the fair values are observable or unobservable, as follows:

Level 1 – Financial instruments measured based on quoted prices in active markets for identical financial instruments that an entity can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. These include actively quoted debt instruments, equity and derivative instruments traded on exchanges, as well as mutual funds and unit-linked products that have regularly and frequently published quotes.

Level 2 – Financial instruments measured using valuation techniques with the following inputs: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers and iv) may also include other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments mainly include over-the-counter (OTC) derivatives and less-liquid debt instruments.

Level 3 – Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equity instruments.

The fair value hierarchy categorisation of the Bank’s financial assets and liabilities carried at fair value is presented in the following table:

	31 December 2014			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	57,889	-	-	**57,889**
-Equity securities	905	-	-	**905**
Derivative financial instruments	-	2,365	-	**2,365**
Available-for-sale investment securities				
-Investment securities - debt	112,328	12,368	-	**124,696**
-Investment securities - equity	8	-	5,810	**5,818**
Total financial assets	**171,130**	**14,733**	**5,810**	**191,673**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	4,557	-	**4,557**
Total financial liabilities	**-**	**4,557**	**-**	**4,557**

(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)

2.4.2. Financial instruments measured at fair value (continued)

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	14,693	-	-	**14,693**
-Equity securities	2,321	-	-	**2,321**
Derivative financial instruments	-	2,649	-	**2,649**
Available-for-sale investment securities				
-Investment securities - debt	114,991	8,086	-	**123,077**
-Investment securities - equity	7,014	-	5,810	**12,824**
Total financial assets	**139,019**	**10,735**	**5,810**	**155,564**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	7,200	-	**7,200**
Total financial liabilities	**-**	**7,200**	**-**	**7,200**

The Bank recognizes transfers into and out of the fair value hierarchy levels at the beginning of the quarter in which a financial instrument's transfer was affected. In 2014 there were no transfers between Level 1 and Level 2, as well as, no changes in valuation techniques used.

Bank's valuation processes

The Bank uses widely recognized valuation models for determining the fair value of common financial instruments, such as interest and cross currency swaps, that use only observable market data and require little management estimation and judgment. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded and simple over-the-counter derivatives. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determining fair values.

Where valuation techniques are used to determine the fair values of financial instruments, they are validated against historical data and published forecasts and, where possible, against current or recent observed transactions in different instruments, and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Fair values estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that market participants would take them into account in pricing the instrument. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Bank and the counterparty, where appropriate.

The Bank follows fair valuation processes and procedures, which are established at a Group level by Global Market Counterparty Risk Sector. Some of the specific valuation controls include: verification of observable pricing, re-performance of model valuations, a review and approval process for new models and/or changes to models, calibration and back-testing against observable market transactions, where available, analysis of significant valuation movements, etc. Where third parties' valuations are used for fair value measurement, these are reviewed in order to ensure compliance with the requirements of IFRS 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)

2.4.2. Financial instruments measured at fair value (continued)

Valuation techniques

OTC derivative financial instruments are fair valued by discounting expected cash flows using market interest rates at the measurement date. Counterparty credit risk adjustments and own credit risk adjustments are applied to OTC derivatives, where appropriate. Bilateral credit risk adjustments consider the expected cash flows between the Bank and its counterparties under the relevant terms of the derivative instruments and the effect of the credit risk on the valuation of these cash flows. As appropriate in circumstances, the Bank considers also the effect of any credit risk mitigating arrangements, including collateral agreements and master netting agreements on the calculation of credit risk valuation adjustments (CVAs).

For the period ended 31 December 2013, the Bank has switched from LIBOR discounting to overnight index swap (OIS) discounting for collateralized derivatives. The change has no material effect on the financial statements of the Bank.

The Bank determines fair values for debt securities held using quoted market prices in active markets for securities with similar credit risk, maturity and yield or by using discounted cash flows method.

The fair values of unquoted available-for-sale equity instruments are estimated mainly (i) using third parties' valuation reports based on investees' net assets, where management does not perform any further significant adjustments, and (ii) net assets' valuations, adjusted where considered necessary.

Reconciliation of Level 3 fair value measurement

Balance at 1 January 2014	**5,810**
Transfers into Level 3	-
Total gain/(loss) for the period included in profit or loss	-
Total gain/(loss) for the period included in other comprehensive income	-
Purchases/(sales)	-
Balance at 31 December 2014	**5,810**

There is no Level 3 movement during 2014.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

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.

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 2014 and 2013. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

(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 2014	**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	***5,340,979***	***3,796,850***	***490,260***	***833,384***	***119,320***	***101,165***
Due to other banks	18,866	18,866	-	-	-	-
Due to customers	5,095,833	3,745,168	439,817	829,466	81,382	-
Debt issued and other borrowed funds	200,977	7,513	50,443	3,918	37,938	101,165
Other liabilities	25,303	25,303	-	-	-	-
Derivative financial instruments	***1,452,811***	***431,404***	***1,015,347***	***1,480***	***4,390***	***190***
Outflows from net settled	9,088	3,405	104	999	4,390	190
Outflows from gross settled	1,443,723	427,999	1,015,243	481	-	-
Total liabilities (contractual maturity)	**6,793,790**	**4,228,254**	**1,505,607**	**834,864**	**123,710**	**101,355**
Total assets (contractual maturity)	**8,644,212**	**3,467,638**	**1,147,979**	**487,361**	**1,799,160**	**1,742,074**

As at 31 December 2013	**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	***4,909,662***	***3,169,898***	***402,073***	***1,121,718***	***114,113***	***101,860***
Due to other banks	68,858	68,858	-	-	-	-
Due to customers	4,551,459	3,057,657	384,165	1,076,107	33,530	-
Debt issued and other borrowed funds	264,197	18,235	17,908	45,611	80,583	101,860
Other liabilities	25,148	25,148	-	-	-	-
Derivative financial instruments	***1,625,408***	***877,186***	***736,354***	***7,031***	***4,837***	**-**
Outflows from net settled	11,836	2,966	147	3,887	4,837	-
Outflows from gross settled	1,613,572	874,220	736,207	3,144	-	-
Total liabilities (contractual maturity)	**6,535,070**	**4,047,084**	**1,138,427**	**1,128,749**	**118,950**	**101,860**
Total assets (contractual maturity)	**8,520,601**	**3,378,440**	**875,302**	**457,168**	**1,939,623**	**1,870,068**

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.

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

Notes to the financial statements (continued)

V. Financial risk management (continued)

3.3. Off-balance sheet items (continued)

At 31 December 2014	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	100,458	17,286	2,741	**120,485**
Commitments:				
- Undrawn loan commitments	627,706	43,672	44,809	**716,187**

At 31 December 2013	No later than 1 year	1-5 years	Over 5 years	Total
Guarantees:				
- guarantees and standby letters of credit	92,921	15,565	2,524	**111,010**
Commitments:				
- Undrawn loan commitments	509,930	42,080	43,448	**595,458**

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.

In accordance with Law on Credit Institutions each bank or banking group is required to hold the minimum level of paid-in capital amounting to BGN 10,000 thousand.

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 Regulation № 575/2013 and Directive 2013/36 of the European Union. The required information is filed with the Bulgarian National Bank on a quarterly basis.

Regulatory capital consists of Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital. Tier 1 capital includes shareholders' ordinary equity, „Reserve” fund, retained earnings from previous year, unrealized gains/losses from available for sale financial instruments and is reduced by intangible assets. Tier II capital includes subordinated debt and revaluation reserves for the real estate, occupied by the Bank.

The own funds requirements under Basel III are the following (as a percentage of risk-weighted assets, RWA):

- CET 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%;
- Total capital ratio of 8 %.

Additionally, capital conservation buffer and systemic risk buffer are introduced. The capital conservation buffer equals 2.5% of RWA and the systemic risk buffer – 3% of RWA.

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.

(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)

The table below summarizes the composition of regulatory capital and the Capital adequacy ratio of the Bank for the years ended 31 December calculated in accordance with Regulation (EU) 575/2013 that is in force since 01.01.2014. The Capital Adequacy Ratio for 2013 calculated in accordance with former BNB Regulation 8 on Capital Adequacy of Credit Institutions is 16.76%. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2014	**2013***
Tier 1 capital		
Share capital	452,753	452,753
Reserves	353,556	335,063
Revaluation reserve of financial assets available for sale	(385)	(864)
Less:		
Intangible assets	(35,009)	(33,195)
Total qualifying Tier 1 capital	**770,915**	**753,757**
Tier 2 capital		
Long term debt	97,792	117,792
Revaluation reserve of property owned by the Bank	1,784	2,230
Total qualifying Tier 2 capital	**99,576**	**120,022**
Risk-weighted assets		
On-balance sheet	3,351,830	3,426,865
Off-balance sheet	153,311	139,310
Total risk-weighted assets	**3,505,141**	**3,566,175**
Basel ratio	**24.83%**	**24.50%**

*2013 numbers presented as per new BASEL III regulation for comparative purposes.

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.

(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)

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 inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognised market data providers.

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.

Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions.

The key assumptions used in determining the net cost for the pension obligations include the discount rate and future salary increases. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate that should be used to calculate the present value of the estimated retirement obligations, at the end of each year. In determining the appropriate discount rate, interest rates of Bulgarian government bonds at the end of the reporting period are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term to maturity of the retirement benefit obligations.

The assumed rate of salary increase is determined by reviewing the Bank's salary increases each year. Other assumptions for pension obligations, such as the inflation rate, are based in part on current market conditions.

For a sensitivity analysis of the retirement benefit obligation to reasonably possible, at the time of preparation of these financial statements, changes in the above mentioned key actuarial assumptions, refer to note 25.

Sensitivity analysis of assets and liabilities

The sensitivity analysis (please refer to section V.2.3) 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 2014 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 a 10% depreciation 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.

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 10% drop in equity prices across the board.

(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)

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 2013.

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).

Fair value of repossessed collateral
Non-current assets are classified in the Balance sheet as ‘repossessed collateral’ when their carrying amount will be recovered principally through a sale transaction. They are stated at the lower of carrying amount and fair value less costs to sell. The fair value is determined annually by external appraiser company. The Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. In the absence of such information, the fair value estimation of the external appraiser company is based on the cost of the asset with adjustments to reflect any changes in economic conditions.

Fair value of investment properties
The fair value of the investment property is updated in order to reflect the market conditions at the end of the reporting period by using of licensed appraiser company. The fair value of the investment property is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences.

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

Notes to the financial statements (continued)

1 Net interest income

Interest and similar income	2014	2013
Loans and advances to customers	314,581	335,610
Loans and advances to banks	28,783	22,101
Investment securities	4,959	5,348
Derivative instruments	2,570	5,240
Hedging instruments	2,490	2,209
Trading securities	550	239
Total	**353,933**	**370,747**

Interest income includes BGN 46,992 thousand (2013: BGN 47,145 thousand) interest income, recognised on impaired loans to customers, out of which BGN 10,023 thousand (2013: BGN 12,112 thousand) remain due by the customer as of year-end.

Interest and similar charges	2014	2013
Deposits from customers	133,760	163,506
Long term debt	5,447	5,092
Derivative instruments	1,525	750
Hedging instruments	1,375	4,907
Deposits from banks	543	769
Total	**142,650**	**175,024**

2 Net fee and commission income

Fees and commission income	2014	2013
Transfers	21,317	19,547
Loans' fees and commissions	14,169	16,709
Account maintenance	12,990	11,120
Foreign exchange operations	8,867	7,655
Receipts from sales of services	7,963	7,876
Cash operations	5,497	5,332
Documentary business	1,818	1,711
Management, brokerage and securities trading	563	537
Other fees	407	255
Operations with derivatives	362	2,905
Total	**73,953**	**73,647**

Fee and commission expense	2014	2013
Loans related fees	6,584	7,493
Transactions processing	5,181	4,992
Fees related to long term funding	839	649
Cash transactions and correspondent accounts	674	563
Other fees	375	615
Operations related to derivatives	362	2,248
Management, brokerage and securities trading	199	173
Total	**14,214**	**16,733**

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

Notes to the financial statements (continued)

3 Other operating income	2014	2013
Rental income	234	154
Net gain/(loss) from non-current fixed assets	-	25
Total	**234**	**179**

4 Net trading income	2014	2013
Net results from derivative instruments and FX transactions	580	(7)
Translation gains less losses	(1)	(43)
Net trading income	**579**	**(50)**

5 Other operating expenses	2014	2013
Staff costs (Note 6)	60,395	58,893
Operating lease rentals	21,431	20,954
Depreciation of property, plant and equipment (Note 16)	13,943	9,111
Advertising and marketing	7,425	6,952
Repairs and maintenance	6,327	6,948
External services	4,713	4,356
Amortisation of intangible assets (Note 17)	5,417	4,137
Security	3,511	3,882
Software costs	3,593	3,639
Communication	2,022	2,179
Materials and utilities	1,965	2,112
Other operating costs	1,219	1,179
Travel and accommodation	383	489
Insurance	635	474
Levies and taxes	-	4
VAT tax refund and other related	(6,523)	-
Total	**126,456**	**125,309**

In 2014 Eurobank Bulgaria accrued BGN 11,065 thousand provisions for the upcoming restructuring process of the Bank in 2015, of which BGN 5,813 thousand related to write down of Tangible assets (refer to Note 16), BGN 587 thousand related to write down of Intangible assets (refer to Note 17), BGN 2,543 thousand staff related (refer to Note 6 and Note 25), and the remaining 2,122 thousand related to other administrative expenses such as lease cancellation fees (refer to Note 24b).

6 Staff costs	2014	2013
Wages and salaries	48,218	49,231
Social security costs	3,474	3,463
Pension costs – defined contribution plans	4,151	4,090
Pension costs – defined benefit plans (Note 25)	3,139	493
Other	1,413	1,616
Total staff cost	**60,395**	**58,893**

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

Notes to the financial statements (continued)

7 Impairment charge for credit losses	2014	2013
Loans and advances to customers (Note 13)	(122,995)	(80,888)
Credit commitments	14	3
Total	**(122,981)**	**(80,885)**

8 Income tax expense	2014	2013
Deferred income tax (Note 23)	(1,445)	(177)
Current income tax	1,541	2,548
Total	**96**	**2,371**

Tax is payable at an actual rate of 10% (2013: 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:

	2014	2013
Profit before income tax	**773**	**20,864**
Tax calculated at a tax rate of 10% (2013: 10%)	77	2,086
Tax effect of:		
Income and expenses not subject to tax, net	19	285
Income and expense not recognized subject to tax, net	-	-
Income tax expense	**96**	**2,371**

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 last full-scope tax audit of the Bank has been carried out in 2014, covering the periods 2008 – 31.03.2013 with respect to VAT and 2008 – 2012 with respect to CITA.
The Bank has reimbursed VAT for the amount of BGN 4,797 thousand, related to that interest for the amount of BGN 869 thousand and interest related to CITA for the amount of BGN 188 thousand.

9 Income tax effects relating to comprehensive income

	Year ended 31 December					
	2014			2013		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/benefit**	**Net of tax amount**
Available for sale securities	(4,964)	496	(4,468)	8,462	(846)	7,616
Change in FV of property, plant and equipment	-	-	-	(155)	16	(139)
Remeasurements of post-employment benefit obligations	190	(19)	171	(228)	23	(205)
Total	**(4,774)**	**477**	**(4,297)**	**8,079**	**(807)**	**7,272**

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

Notes to the financial statements (continued)

10 Cash and balances with the Central Bank	2014	2013
Cash in hand	114,689	108,413
Balances with Central bank	412,022	592,272
Total	**526,711**	**700,685**
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	437,392	385,757

Mandatory reserves with Central bank represent the minimum level of deposits which the Bank is required to maintain with BNB. As at the end of 2013 and 2014 the Bank has fulfilled the requirement for a minimum 100% coverage of mandatory reserves with balances with Central bank on a monthly basis. Balances with Central bank can be freely used daily provided the average monthly minimum deposits are maintained.

11 Loans and advances to banks	2014	2013
Deposits in other banks	460,414	259,368
Reverse repurchase agreements	1,026,812	586,753
Total	**1,487,226**	**846,121**

Included in the amount of loans and advances to banks is accrued interest of BGN 30 thousand (2013: BGN 25 thousand).
Approximately 100 % (2013: 100 %) 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 Serbia, Russia, Romania and Turkey.

12 Financial assets held for trading	2014	2013
Bulgarian government bonds	57,889	14,693
Shares	905	2,321
Total	**58,794**	**17,014**
Equity securities:		
- Listed	905	2,321
Bonds:		
- Listed	2,065	61
- Unlisted	55,824	14,632

Included in the amount of the bonds is accrued interest in the amount of BGN 271 thousand (2013: BGN 231 thousand).

Gains less losses from trading securities	2014	2013
Debt securities	318	28
Equity securities	195	498
Total	**513**	**526**

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

Notes to the financial statements (continued)

13 Loans and advances to customers	2014	2013
Consumer lending (including credit cards)	731,939	763,694
Small Business lending	761,759	811,089
Mortgages	1,301,384	1,237,913
Corporate lending	1,513,260	1,451,444
Gross loans and advances	**4,308,342**	**4,264,140**
Less allowance for impairment losses on loans and advances	(474,348)	(381,623)
Net outstanding balance of loans and advances to customers	**3,833,994**	**3,882,517**

Included in the amount of loans and advances to customers is accrued interest of BGN 35,210 thousand (2013: BGN 38,714 thousand). In 2014 Eurobank Bulgaria AD purchased loans from BRS in the amount of BGN 78,926 thousand (2013: BGN 16,069 thousand) and loans from Eurobank Private Bank LUX amounting to BGN 39,264 thousand (2013: Nil). All of the companies are related parties of the Eurobank Group.

	2014	2013
The ten largest exposures to customers	438,335	385,697
Percentage of gross loans	10.17%	9.05%

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 2013	**90,003**	**31,337**	**100,907**	**96,597**	**318,844**
Acquisition of loan portfolio	-	1,937	-	344	**2,281**
Charge for the year	21,279	14,911	23,822	20,876	**80,888**
Recoveries and legal and collection fees	2,525	(179)	175	2,759	**5,280**
Amounts written off	(280)	(93)	(471)	(24,356)	**(25,200)**
Foreign exchange differences	(11)	(305)	(80)	(74)	**(470)**
At 31 December 2013	**113,516**	**47,608**	**124,353**	**96,146**	**381,623**

	Consumer lending	Mortgages	Small Business Lending	Corporate Lending	Total
At 1 January 2014	**113,516**	**47,608**	**124,353**	**96,146**	**381,623**
Acquisition of loan portfolio	-	-	-	-	-
Charge for the year	18,980	16,670	27,411	59,934	**122,995**
Recoveries and legal and collection fees	2,455	545	226	54	**3,280**
Amounts written off	(3,832)	(9,839)	(15,650)	(4,731)	**(34,052)**
Foreign exchange differences	(52)	380	173	1	**502**
At 31 December 2014	**131,067**	**55,364**	**136,513**	**151,404**	**474,348**

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

Notes to the financial statements (continued)

		2014	2013
14	**Investment securities, available for sale**	**2014**	**2013**
	Bulgarian government bonds	107,555	94,431
	Corporate unsecured bonds	12,368	20,297
	Foreign government bonds	4,773	8,349
	Shares and participations	5,818	12,824
	Total	**130,514**	**135,901**
	Equity securities		
	Listed	8	7,014
	Unlisted	5,810	5,810
	Debt securities		
	Listed	81,610	114,991
	Unlisted	43,086	8,086
	Total	**130,514**	**135,901**

Included in the amount of investment securities is accrued interest in the amount of BGN 3,834 thousand (2013: BGN 4,278 thousand).
Foreign government bonds consist of exposures to the following countries: Romania BGN 4,773 thousand (maturing 2018) (2013: Romania BGN 4,598, Ukraine BGN 3,751).

Movement in available for sale securities is reconciled as follows:

Book value as at 31 December 2012	**174,899**
Additions	17,278
Disposals	(47,404)
Change in accrued interest	(1,211)
Amortization of discounts or premium	(1,497)
Net fair value gain	129
Impairment of corporate securities	(6,293)
Book value as at 31 December 2013	**135,901**
Additions	43,784
Disposals	(47,965)
Change in accrued interest	(444)
Amortization of discounts or premium	(355)
Net fair value gain	4,985
Impairment of corporate securities	(5,392)
Book value as at 31 December 2014	**130,514**

Gains less (losses) and impairment of securities available for sale	**2014**	**2013**
Transfer the revaluation reserve (deficit) from equity to income statement	5,493	1,662
Gains less (losses) recognized on sale of AFS securities directly through income statement	(1,316)	30
Impairment of investment security recognised directly in income statement	(5,392)	(6,293)
Total	**(1,215)**	**(4,601)**

(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.

Fair value of investment properties
The fair value of the investment property is updated in order to reflect the market conditions at the end of the reporting period by using the valuation reports of licensed appraiser company. The fair value of the investment property is the price that would be received to sell the asset in an orderly transaction between market participants at the measurement date. The best evidence of the fair value is current prices in an active market for similar properties. In the absence of such information, the fair value estimation of the external appraiser company is based on recent prices of properties with different condition or location, adjusted to reflect those differences.
For disclosure purposes fair value is based on reports prepared by a valuation company at the end of each reporting period. As a result of the current economic environment and market conditions, the frequency of property transactions is relatively low. Nevertheless, it is management's assessment that there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

Investment property	**2014**	**2013**
Beginning of the year	876	876
Net gains or losses from fair value adjustments	-	-
End of the year	**876**	**876**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	**Fair value 31/12/2014 in**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2014 in BGN**	**Range (weighted average) 2013 in BGN**	**Connection between the unobservable input and FV**
Land	876	Market comparison approach	price per m2	29.3 – 33.3 (25.4)	29.3 – 33.3 (25.4)	A significant increase in price per m2 would result in a higher fair value

16 Property, plant and equipment

Fair value of own properties
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 2013.
As a result of the current economic environment and market conditions, the frequency of property transactions is relatively low. Nevertheless, it is management's assessment that there remains sufficient market activity to provide comparable prices for orderly transactions with similar properties when determining the fair value.

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

For those properties, for which the valuation was based on discounted cash flow projections, the principal assumptions underlying the estimation of the fair value are those relating to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates.

The cost method for valuation of property is based on the assessment of the costs that will have to be made so as to acquire a right to build and building to be built in the same kind. Based on these costs, the area of the concrete structure and depreciation the property is evaluated for its fair market value.

	Land and buildings	Leasehold improvements	Plant and equipment	Total tangible fixed assets
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**
Year ended 31 December 2013				
Opening net book amount	20,201	16,737	22,504	**59,442**
Additions	476	262	3,346	**4,084**
Impairment and write offs	(171)	-	-	**(171)**
Transfers	-	(46)	46	**-**
Depreciation charge (Note 5)	(499)	(2,697)	(5,915)	**(9,111)**
Closing net book amount	**20,007**	**14,256**	**19,981**	**54,244**
At 31 December 2013				
Gross amount	24,910	30,592	91,522	**147,024**
Accumulated depreciation	(4,903)	(16,336)	(71,541)	**(92,780)**
Net book amount	**20,007**	**14,256**	**19,981**	**54,244**
Year ended 31 December 2014				
Opening net book amount	20,007	14,256	19,981	**54,244**
Additions	63	133	2,846	**3,042**
Impairment and write offs	-	(203)	-	**(203)**
Transfers	44	(44)	-	**-**
Depreciation charge (Note 5)	(428)	(7,870)	(5,645)	**(13,943)**
Closing net book amount	**19,686**	**6,272**	**17,182**	**43,140**
At 31 December 2014				
Gross amount	25,075	29,264	90,790	**145,129**
Accumulated depreciation	(5,389)	(22,992)	(73,608)	**(101,989)**
Net book amount	**19,686**	**6,272**	**17,182**	**43,140**

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

	2014	2013
Land and buildings at revalued amount	**19,686**	**20,007**
Revaluation reserve, net of tax	(2,231)	(2,231)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	1,177	1,178
Deferred tax on revaluation	(248)	(248)
Land and buildings at cost less accumulated depreciation	**18,384**	**18,706**

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

Class property	Fair value 31/12/2014	Valuation technique	Significant Unobservable Input	Range (weighted average) 2013 in BGN	Connection between the unobservable input and FV
Land	99	Market comparison approach	price per m2	54.76 - 70.41 (48.90)	A significant increase in price per m2 would result in a higher fair value
Land	3,815	Cost approach	price per m2	8 - 1819 (172.93)	A significant increase in price per m2 would result in a higher fair value
Land	**3,914**				
Residential	31	Cost approach	price per m2	270 - 743.22 (358.36)	A significant increase in price per m2 would result in a higher fair value
Residential	310	Market comparison approach	price per m2	1.29 - 410.72 (143.02)	A significant increase in price per m2 would result in a higher fair value
Residential	**341**				
Retail	34	Cost approach	price per m2	26 - 140 (118.16)	A significant increase in price per m2 would result in a higher fair value
Retail	4	Income approach	rental price per m2	10	A significant increase in price per m2 would result in a higher fair value
Retail	133	Market comparison approach	price per m2	222 - 486 (376.00)	A significant increase in price per m2 would result in a higher fair value
Retail	**171**				
Office	3,172	Cost approach	price per m2	30 - 800 (505.30)	A significant increase in price per m2 would result in a higher fair value
Office	6,821	Income approach	rental price per m2	6.67 - 291.98 (37.79)	A significant increase in price per m2 would result in a higher fair value
Office	5,187	Market comparison approach	price per m2	105.01 - 1662.46 (682.20)	A significant increase in price per m2 would result in a higher fair value
Office	**15,180**				
Mixed	10	Income approach	rental price per m2	20 - 35 (25.00)	A significant increase in price per m2 would result in a higher fair value
Mixed	10	Cost approach	price per m2	20 - 85 (27.41)	A significant increase in price per m2 would result in a higher fair value
Mixed	**80**				

Land and buildings in their entirety are classified as Level 3 assets in the fair value hierarchy, thus the Level 3 movement reconciliation for the year can be found in the above tables.

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

Notes to the financial statements (continued)

17 Intangible assets

At 31 December 2012	
Gross book amount	62,767
Accumulated amortisation	(30,941)
Net book amount	**31,826**
Year ended 31 December 2013	
Opening net book amount	31,826
Additions	5,506
Amortisation charge (Note 5)	(4,137)
Closing net book amount	**33,195**
At 31 December 2013	
Gross book amount	68,273
Accumulated amortisation	(35,078)
Net book amount	**33,195**
Year ended 31 December 2014	
Opening net book amount	33,195
Additions	7,231
Amortisation charge (Note 5)	(5,417)
Closing net book amount	**35,009**
At 31 December 2014	
Gross book amount	75,138
Accumulated amortisation	(40,129)
Net book amount	**35,009**

Intangible assets	**2014**	**2013**
Software	14,349	14,988
Other	9,027	8,390
Licenses	8,741	7,774
Internally developed	2,892	2,043
Total	**35,009**	**33,195**

Internal development costs recognized in 2014 as intangible asset are BGN 1,224 thousand (2013: BGN 1,155 thousand).

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

Notes to the financial statements (continued)

18 Other assets

Other assets	2014	2013
Amounts in transit	7,017	5,386
Repossessed collaterals	4,700	5,250
Other debtors	4,628	4,474
Prepaid expenses	3,084	3,291
Other assets	621	725
Materials	30	120
Less: provision against other assets	(849)	(865)
Total	**19,231**	**18,381**

The financial assets contained in the Other assets note amounted to BGN 11,417 thousand (2013: BGN 9,720 thousand). The impairment on financial assets amounted to BGN 849 thousand (2013: BGN 865 thousand).

Provision against other financial assets	**2014**	**2013**
Opening balance at 1st of January	865	858
Charged to the income statement	100	504
Reversed to the income statement	(21)	(28)
Used during year	(95)	(469)
Closing balance	**849**	**865**

19 Deposits from Banks

Deposits from Banks	2014	2013
Items in course of collection	4,161	3,917
Deposits from other banks	14,699	50,779
Repurchase agreements	-	14,156
Total	**18,860**	**68,852**

Included within due to other banks is accrued interest payable of BGN 30 thousand (2013: BGN 41 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.

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

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

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.

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the 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:

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

Notes to the financial statements (continued)

20 Derivative financial instruments (continued)

Year ended 31 December 2014	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	3,170	52	48
OTC currency swaps	1,438,021	712	22
Total OTC currency derivatives for trading	**1,441,191**	**764**	**70**
Interest rate derivatives			
OTC interest rate swaps	173,793	574	564
OTC IR options bought and sold	174,321	1,027	1,027
Total OTC interest rate derivatives for trading	**348,114**	**1,601**	**1,591**
Derivatives held for hedging			
OTC interest rate swaps	84,363	-	2,896
Total OTC interest rate derivatives for hedging	**84,363**	**-**	**2,896**
Total recognised derivative assets / liabilities		**2,365**	**4,557**

Year ended 31 December 2013	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	8,319	68	53
OTC currency swaps	1,544,766	524	296
Total OTC currency derivatives	**1,553,085**	**592**	**349**
Interest rate derivatives			
OTC interest rate swaps	81,024	961	961
OTC IR options bought and sold	248,117	1,096	1,096
Total OTC interest rate derivatives	**329,141**	**2,057**	**2,057**
Derivatives held for hedging			
OTC interest rate swaps	58,624	-	4,794
Total OTC interest rate derivatives for hedging	**58,624**	**-**	**4,794**
Total recognised derivative assets / liabilities		**2,649**	**7,200**

The Bank hedges part of its existing interest rate risk resulting from any potential decrease in the fair value of fixed rate bonds denominated in foreign currencies using interest rate swaps. The fair value of these swaps at 31 December 2014 was negative BGN 2,896 thousand (2013: negative BGN 4,794 thousand).

The gain on the hedging instruments was BGN 2,094 thousand (2013: gains BGN 2,729 thousand). The loss on the hedged item attributable to the hedged risk was BGN 2,043 thousand (2013: loss BGN 2,770 thousand). In 2014 the fair value hedges were highly effective (2013: highly effective), and the net effect recognised in income statements is gain of BGN 51 thousand (2013: loss BGN 41 thousand).

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

Notes to the financial statements (continued)

	2014	2013
21 Due to customers	**2014**	**2013**
Large corporate customers	706,581	518,812
Medium corporate customers	176,134	179,865
Total due to corporate customers	**882,715**	**698,677**
Retail customers	4,194,558	3,821,402
Total due to customers	**5,077,273**	**4,520,079**

Included within due to customers is related accrued interest payable of BGN 30,215 thousand (2013: BGN 48,456 thousand).

22 Debt issued and other borrowed funds	**2014**	**2013**
Subordinated debt	98,041	122,896
Long term loan from EBRD	22,901	34,487
Long term debt from Bulgarian Development Bank	15,160	36,796
European Investment Bank Loan	15,660	19,579
Banka Popolare di Sondrio, Italy	28,568	11,739
KBC Bank, Brussels	-	14,696
Total	**180,330**	**240,193**

a) Subordinated debt instruments

In March 2005, DZI Bank signed a subordinated debt agreement for the 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 remained unchanged. In 2010 an annex for maturity extension of the debt until March 2018 was signed. In March 2011 a new annex was signed, amending the interest rate terms and the dates of the interest payments. In December 2014 the subordinated debt agreement was prepaid following the approval of BNB. As of 31 December 2014 the total liability amounted to BGN 0 (2013: BGN 25,026 thousand).

In June 2007, Eurobank Bulgaria signed a subordinated debt agreement with Eurobank Ergasias for the amount of EUR 30,000 thousand (BGN 58,675 thousands). In 2010 an annex for maturity extension of the debt until June 2017 was signed. In March 2011 a new annex was signed, amending the interest rate terms and the dates of the interest payments. In June 2012 an extension of the maturity until June 2020 was agreed between the parties. As of 31 December 2014 the total liability amounted to BGN 58,767 (2013: BGN 58,705 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 August 2020 was agreed between the parties. As of 31 December 2014 the total liability amounted to BGN 39,274 thousand (2013: BGN 39,165 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)

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

In July 2013, Eurobank Bulgaria and the European Bank for Reconstruction and Development structured a Trade Facilitation framework to support short-term intra-regional trade transactions. The Trade Facilitation Program is structured into two agreements between EBRD and Eurobank Bulgaria – Revolving Credit Agreement (for short-term financing of pre-export, import and factoring) and Issuing Bank Agreement (for issuance of guarantees and letters of credit). The total limit of the program is EUR 20,000 thousand (BGN 39,117 thousand). As of 31 December 2014 the total liability amounted to BGN 22,901 thousand (2013: BGN 0. The line became operational in end-Q4'2013 and as of year-end no transactions were funded under that line).

In July 2013, Eurobank Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement under the Bulgaria Energy Efficiency for Competitive Industry Finance Facility. The total size of the funding line is EUR 4,000 thousand (BGN 7,823 thousand) through which Eurobank Bulgaria will support local SMEs in energy efficiency projects. As of 31 December 2013, the total liability amounted to BGN 0 (The line became operational in end-Q4'2013 and as of 2013 year-end no disbursement under the line have been initiated). The line expired in July 2014.

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 purpose of the line is to facilitate financing of private enterprises, firms, businesses, sole proprietors or other legal entities. The funding line matured and was fully repaid in October 2014 (2013: BGN 29,381).

In July 2008, Eurobank Bulgaria and the European Bank for Reconstruction and Development signed a Loan Agreement whereby the Bank can borrow up to EUR 25,000 thousand (BGN 48,896 thousand) for the purpose of on-lending to small and medium-sized enterprises. The funding line matured and was fully repaid in July 2014 (2013: BGN 5,106 thousand).

c) Loans received from the Bulgarian Development Bank

In April 2014, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank for support of agricultural producers. The total size of the funding line is BGN 5,000 thousand. The loan was disbursed in April 2014, with principal maturity schedule up to March 2019. As of 31 December 2014 the total liability amounted to BGN 5,045 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 total size of the funding line is BGN 5,000 thousand. The loan was disbursed in December 2012, with principal maturity schedule up to March 2017. The funding was terminated and fully repaid in June 2014 (2013: BGN 4,988 thousand).

In August 2011, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank under a Program for supporting Small and Medium enterprises in Bulgaria with proceeds from KfW, Germany. The total size of the funding line is EUR 7,250 thousand (BGN 14,178 thousand). The line was disbursed in August 2011, with a final repayment date in September 2020. As of 31 December 2014 the total liability amounted to BGN 10,115 thousand (2013: BGN 11,805 thousand).

In February 2009, Eurobank Bulgaria and 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 at minimizing the global financial crisis

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

impact on the Bulgarian economy. The purpose of the line is to facilitate medium to long term financing to small and medium-sized enterprises. The funding was terminated and fully repaid in June 2014 (2013: BGN 20,003 thousand).

d) Loan received from the European Investment Bank

In October 2009, Eurobank Bulgaria and the European Investment Bank signed a Loan Agreement for the total amount of EUR 50,000 thousand (BGN 97,792 thousand) for financing of investment projects and supporting working capital needs of small and medium-sized enterprises in Bulgaria. The contract has repayment schedule with final repayment date in 2018. As of 31 December 2014 the total liability amounted to BGN 15,660 thousand (2013: BGN 19,579 thousand).

e) Financing under the Guarantee Agreement between Eurobank Bulgaria and International Finance Corporation (IFC), member of World Bank Group.

In February 2012, Eurobank Bulgaria and the International Finance Corporation (IFC), member of World Bank Group, signed a Trade Finance Agreement for facilitation of trade transactions of local enterprises (short-term funding of pre-export/import transactions, issuance of bank guarantees and letters of credit). The total limit of the line was initially set at USD 20,000 thousand. In December 2013 the Limit was increased up to USD 40,000 thousand.
As of December 2014, the utilization of that line is channelled through the following partnering banks:

- ***Short-term Loan from Banca Popolare di Sondrio, Italy***

In November 2014, Eurobank Bulgaria received a short-term financing of EUR 10,000 thousand (BGN 19,558 thousand) maturing in May 2015.
In September 2014, Eurobank Bulgaria received a short-term financing of EUR 1,100 thousand (BGN 2,151 thousand) maturing in March 2015 and a short-term financing of EUR 3,500 thousand (BGN 6,845 thousand) maturing in March 2015.
All of the funding was obtained from Banca Popolare di Sondrio, Italy for on-lending to a pre-export trade transactions of customers of Eurobank Bulgaria.

The total outstanding balance as of 31 December 2014 is BGN 28,568 thousand (2013: BGN 11,739 thousand).

- ***Short-term Loan from KBC Bank, Belgium***

The outstanding balance as of 31 December 2014 is BGN 0 thousand (2013: BGN 14,696 thousand).

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

(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 2014			
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Subordinated debt				
Floating rate	-	-	97,792	**97,792**
Accrued interest	249	-	-	**249**
EBRD Credit lines				
Floating rate	22,883	-	-	**22,883**
Accrued interest	18	-	-	**18**
Loans from Bulgarian Development Bank BGN				
Fixed rate	1,111	3,889	-	**5,000**
Accrued interest	45	-	-	**45**
Loan from Bulgarian Development Bank EUR				
Floating rate	1,668	6,673	1,668	**10,009**
Accrued interest	106	-	-	**106**
Loan from the European Investment Bank				
Floating rate	3,912	11,735	-	**15,647**
Accrued interest	13	-	-	**13**
Banka Popolare di Sondrio, Italy				
Floating rate	28,555	-	-	**28,555**
Accrued interest	13	-	-	**13**
Total Debt issued and other borrowed funds	**58,573**	**22,297**	**99,460**	**180,330**

(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 2013			
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
Subordinated debt				
Floating rate	-	25,000	97,792	**122,792**
Accrued interest	104	-	-	**104**
EBRD Credit lines				
Floating rate	34,179	-	-	**34,179**
Accrued interest	308	-	-	**308**
Loans from Bulgarian Development Bank BGN				
Fixed rate	5,533	19,449	-	**24,982**
Accrued interest	9	-	-	**9**
Loan from Bulgarian Development Bank EUR				
Floating rate	1,668	6,673	3,336	**11,677**
Accrued interest	128	-	-	**128**
Loan from the European Investment Bank				
Floating rate	3,912	15,647	-	**19,559**
Accrued interest	20	-	-	**20**
Banka Popolare di Sondrio, Italy				
Fixed rate	11,735	-	-	**11,735**
Accrued interest	4	-	-	**4**
KBC Bank, Belgium				
Fixed rate	14,669	-	-	**14,669**
Accrued interest	27	-	-	**27**
Total Debt issued and other borrowed funds	**72,296**	**66,769**	**101,128**	**240,193**

(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% (2013: 10%). The movement on the deferred income tax account is as follows:

	2014	2013
Deferred tax liability at the beginning of year	3,770	3,985
Deferred tax liability recognized in OCI	19	(38)
Income statement charge (Note 8)	(1,445)	(177)
Deferred tax liability at end of year	**2,344**	**3,770**

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

	2014	2013
Deferred income tax liabilities		
Accelerated tax depreciation	3,754	3,946
Property revaluation	248	248
Gain on share exchange	416	416
	4,418	**4,610**
Deferred income tax assets		
Unused holidays	129	114
Provision for court claims	311	232
Provision for retirement obligations	353	307
Deferred tax assets on actuarial loss	4	23
Deferred tax assets on provisions for restructuring	1,106	-
Deferred tax assets on provision for tax audit	23	43
Other temporary differences	148	120
	2,074	**839**

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

	2014	2013
Depreciation	(192)	(70)
Unused holidays	(15)	1
Provision for court claims and off balances	(79)	(13)
Other temporary differences	(7)	(51)
Provisions for restructuring	(1,106)	-
Provision for retirement obligations	(46)	(44)
Net deferred tax charge	**(1,445)**	**(177)**

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

Notes to the financial statements (continued)

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. Further details are presented in Note 30a.
The table below represents the movement in provisions for legal claims:

Legal provisions	**2014**	**2013**
Opening balance at 1st of January	2,753	2,185
Charged to the income statement	1,052	577
Used during year	(467)	(9)
Closing balance	**3,338**	**2,753**

(b) Provisions for restructuring
In 2014 the Bank has booked restructuring provision amounting to BGN 2,122 thousand (Note 5)

(c) 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**	
	2014	**2013**	**2014**	**2013**
Cash with Central bank (held as MRR)	412,022	385,757	5,128,169	4,558,937
Trading and investment securities (pledged under repurchase agreement)	-	14,999	-	14,156
Trading and investment securities (pledged under government accounts)	114,243	75,170	70,917	41,720
Loans pledged under long term debt agreement	12,610	30,657	15,160	36,796
Total	**538,875**	**506,583**	**5,214,246**	**4,651,609**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2014 was BGN 538,875 thousand (2013: BGN 506,583 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 also placed BGN 80 thousand (2013: BGN 800 thousand) as a cover for letter of credit and letter of guarantee transactions. Pledged funds under Credit Support agreements are BGN 1,428 thousand (2013: BGN 5,848 thousand).

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.

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

Notes to the financial statements (continued)

24 Provisions for other liabilities and charges (continued)

The Bank has entered into reverse repurchase agreements with Eurobank Ergasias for the total amount of BGN 1,026,812 thousand (2013: BGN 586,753 thousand) and has accepted high quality and highly liquid bonds at fair value BGN 1,032,441 thousand as collateral (2013: BGN 602,093 thousand), which it is permitted to sell or repledge. The Bank has entered into reverse repurchase agreements with other clients for the total amount of BGN 1,595 thousand (2013: BGN 1,404 thousand) and has accepted preference shares at fair value BGN 3,296 thousand (2013: preference shares for BGN 2,831 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

Application of IAS 19 Revised
In 2013, the Bank applied retrospectively the Revision of IAS 19 'Employee benefits' which introduce several changes to the accounting for employee benefits. The amendments amongst other eliminate the corridor approach and require all remeasurements to be recognised directly in other comprehensive income.
Other changes introduced by the revision include:
(a) the replacement of the interest cost on the defined benefit obligation and the expected return on plan assets with a net interest cost based on (i) the net defined benefit asset or liability and (ii) the discount rate used to discount post-employment benefit obligation and
(b) the requirement to recognise past service cost immediately in the income statement.

	2014	**2013**
Retirement benefit obligation at start of period	3,299	2,644
Service cost	421	352
Interest cost	115	111
Benefits paid	(134)	(66)
Settlement/Curtailment/Termination Loss/(Gain)	60	30
Remeasurement	(190)	228
Restructuring related cost	2,543	-
Retirement benefit obligation at end of period	**6,114**	**3,299**
Expenses recognised in profit or loss		
Service cost	421	352
Interest cost	115	111
Settlement/Curtailment/Termination Loss/(Gain)	60	30
Restructuring related cost	2,543	-
Total expense included in staff costs	**3,139**	**493**
Total remeasurement recognised in OCI	**(190)**	**228**

Significant actuarial assumptions	**2014**	**2013**
Discount rate	**3.31%**	**3.50%**
Future salary increase:		
2014		**2.50%**
2015-2016	**1.00%**	**3.00%**
2017-2018:	**2.00%**	**3.00%**
2019-2020:	**2.50%**	**3.00%**

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

Notes to the financial statements (continued)

25 Retirement benefits obligations (continued)

IAS19 requires the use of a discount rate determined by reference to the yield at the measurement date on high quality corporate debt, or Government bonds if there is no deep market in such debt. The discount rate should reflect the rate at which the liabilities could effectively be settled. The discount rate was set by reference to the yield on long-term fixed interest bonds issued by the Bulgarian Government.

The average duration of the standard legal staff retirement indemnity obligations at 31 December 2014 is 16.60 years (2013: 16.57 years).

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2014 is as follows:

An increase of the discount rate assumed by 0.5% would result in a decrease of the standard legal staff retirement obligations by 7.7% or BGN 275 thousand.

An increase of the future salary increases assumed, by 0.5%, would result in an increase of the standard legal staff retirement obligations by 8.6% or BGN 307 thousand.

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated.

The methods and assumptions used in preparing the above sensitivity analysis were consistent with those used to estimate the retirement benefit obligation and did not change compared to the previous period.

26 Other liabilities	**2014**	**2013**
Other creditors	14,301	13,127
Accrued expenses	9,582	10,822
Unused paid leave accrual	1,290	1,141
Withholding tax obligations	527	893
Other	209	153
Total	**25,909**	**26,136**

27 Share capital

As of 31 December 2014 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 452,752,652 (2013: 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:

	2014	**2013**
Cash in hand (Note 10)	114,689	108,413
Balances with Central bank excluding the minimum level of mandatory reserves	193,326	399,393
Loans and advances to banks (Note 11)	1,487,226	846,121
Total amount of cash and cash equivalent	**1,795,241**	**1,353,927**

50% of the minimum level of mandatory reserves held in BNB are considered cash equivalent, as the Bank is allowed to use them at any time and free of interest.

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

Notes to the financial statements (continued)

29 Related party transactions

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

Following the successful completion of the recapitalization of the Eurobank Ergasias S.A. from the European Financial Stability Facility (E.F.S.F.) and the introduction of its new shares on the Athens Stock Exchange on June 19, 2013 the E.F.S.F. acquired 3,789,317,358 ordinary shares with voting rights issued by Eurobank Ergasias SA, representing 98.56% of the ordinary voting shares. Following the issuance of 205,804,664 new ordinary shares in July, as resolved at the Annual General Meeting of the Shareholders on 27 June 2013, the percentage of the voting rights held in Eurobank by HFSF decreased to 93.55%. Following the share capital increase approved by the Extraordinary General Meeting of 26 August 2013, the percentage of the voting rights held by HFSF increased to 95.23%.

The BoG, following the assessment of Eurobank's capital needs, concluded on 6 March 2014 and notified Eurobank that its Core Tier I capital should increase by EUR 2,945 million. Eurobank Ergasias S.A. with its letter to BoG on 24 March 2014, submitted its capital enhancement plan whereby revised its capital actions providing for an additional positive impact on regulatory capital of EUR 81 million and stated that it intends to cover the remaining capital needs of EUR 2,864 million through a share capital increase.

Following the completion of the Eurobank's share capital increase fully covered by private, institutional and other investors, the percentage of the ordinary shares with voting rights held by the HFSF decreased from 95.23% to 35.41%. In addition, in the context of the Law 3864/2010 (the 'HFSF Law') as amended by Law 4254/2014, the HFSF's voting rights in the Eurobank's General Assemblies have been switched to restricted ones. Accordingly, as of early May, the HFSF is no more the controlling shareholder of the Group but is considered to have significant influence over it. Therefore, the HFSF is considered to be a related party to the Group, whereas Greek Banks significantly influenced by HFSF, within the context of the Greek Banks' recapitalization, are not regarded as such.

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 2014			31 December 2013		
	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)	-	118,190	-	-	16,069	-
Loans and advances to banks (weighted interest rate 2014: 2.44%, 2013: 3.59%)	1,468,075	67	-	842,761	93	-
Loans and advances to customers (weighted interest rate 2014: 2.74%, 2013: 3.24%)	-	87,072	59	-	21,443	16
Financial assets held for trading	-	-	-	-	-	-
Derivative financial instruments assets	1,730	18	-	1,560	-	-
Other assets	-	878	-	-	852	-
Due to other banks	2,349	570	-	1,839	576	-
Due to customers (weighted interest rate 2014: 0.35%, 2013: 0.70%)	-	45,945	39	-	23,367	30
Debt issued and other borrowed funds (weighted interest rate 2014: 3.07%, 2013: 0.66%)	98,041	-	-	97,870	25,026	-
Derivative financial instruments liabilities	3,019	-	-	5,909	255	-
Other liabilities	-	120	-	-	553	-
Interest income	32,223	1,474	2	25,527	1,817	1
Interest expense	(4,973)	(801)	-	(6,013)	(1,017)	(2)
Fee and commission income	324	768	-	1,622	1,131	1
Fee and commission (expense)	(783)	(4)	-	(1,931)	(5)	-
Net trading income	2,939	-	-	(3,081)	-	-
Salaries and other short-term benefits	-	-	884	-	-	825
Rental expense	-	(5,076)	-	-	(4,978)	-
(Loss)/gain on derivatives	(270)	-	-	(18)	-	-
Valuation expenses	-	(156)	-	-	(179)	-
Other Expenses	(978)	(541)	-	(652)	(26)	-
Letters of guarantee issued	-	37	-	-	37	-
Letters of guarantee received	124,874	-	-	47,186	-	-

All loans lent to related parties in 2014 (and 2013) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2014 (and 2013) related to them. Reverse repurchase agreements with Eurobank Ergasias collateralized by high quality bonds (Note 24) are included in line Loans and advances to banks.

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

Notes to the financial statements (continued)

30 Contingent liabilities and other 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 2014, 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:

	2014	**2013**
Guarantees	96,871	85,739
Letters of credit	23,614	25,271
Loan commitments and other credit related liabilities	716,187	595,458
Total	**836,672**	**706,468**

(c) Capital Expenditures

As at 31 December 2014, the Bank had the following capital expenditure commitments:

	2014	**2013**
Capital Expenditures	**2,803**	**2,356**

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	**2014**	**2013**
No later than one year	8,742	9,227
Later than one year and no later than five years	3,367	4,996
Later than five years	-	-
Total	**12,109**	**14,223**

(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 2014 is BGN 24 thousand (2013: BGN 24 thousand).

32 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2014.