EUROBANK BULGARIA
FINANCIAL STATEMENTS
31 DECEMBER 2016

CONTENTS

Independent Auditor's Report

To the Shareholders of Eurobank Bulgaria AD

Our Opinion

We have audited the financial statements of Eurobank Bulgaria AD (the "Bank") which comprise the balance sheet as at 31 December 2016, and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Independent Financial Audit Act that are relevant to our audit of the financial statements in Bulgaria. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Independent Financial Audit Act.

Information Other than the Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises the Annual Activity Report and the Corporate Governance Statement, prepared by the management in accordance with Chapter Seven of the Accountancy Act but does not include the financial statements and our auditor's report thereon.

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

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.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Additional Matters to Be Reported under the Accountancy Act

In addition to our responsibilities and reporting in accordance with ISAs, in relation to the Annual Activity Report and the Corporate Governance Statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organisation of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants (ICPA), issued on 29 November 2016 and approved by its Management Board on 29 November 2016. These procedures refer to testing the existence, form and content of this other information to assist us in forming an opinion on whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act and the Public Offering of Securities Act (Art. 100(m) of POSA, if applicable) applicable in Bulgaria.

Opinion in Connection with Art. 37, Paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:

a) The information included in the Annual Separate Activity Report referring to the financial year for which the separate financial statements have been prepared is consistent with those separate financial statements.

b) The Annual Separate Activity Report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

c) The Corporate Governance Statement referring to the financial year, for which the separate financial statements have been prepared, presents the information required by Chapter Seven of the Accountancy Act and Art. 100(m), paragraph 8 of the Public Offering of Securities Act.

Responsibilities of Management and Those Charged with Governance for the Financial statements

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

Одиторско дружество София Рег. № 085 Прайсуотърхаускупърс Одит ООД

Milka Damianova	Stefan Weiblen
Registered Auditor	PricewaterhouseCoopers Audit OOD
30 March 2017	
Sofia, Bulgaria	

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

ANNUAL ACTIVITY REPORT

The management presents the annual Activity report as of 31 December 2016.

BUSINESS DESCRIPTION

Eurobank Bulgaria AD (the Bank or Postbank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank is a licenced credit institution and an investment intermediary providing retail, corporate banking and investment banking services in Bulgaria. Its Head Office is located in Sofia. The address of its registered office is as follows: 260 Okolovrasten pat Str, 1766 Sofia, Bulgaria.

The activities of the Bank are governed by the applicable legislation regulating the credit institutions and the investment intermediaries. Its principal regulators are Bulgarian National Bank (BNB) and the Financial Supervision Commission (FSC).

BUSINESS OVERVIEW

Macroeconomic Environment

The world economy went through another difficult year with global growth expected to be about 3%. Low level of investments, weak trade and rising political uncertainty contributed to the stagnant growth. The second half of the year saw improving prospects in some of the major economies such as USA and UK, however, the picture in the emerging economies was much more diverse. Growth in China and India declined in 2016, while Brazil and Russia were coming out of the recession. The prospects for the next two years are improving for the major economies and global growth is expected to reach 3.4% and 3.5% in 2017 and 2018 respectively. Positive influence is expected by the continuous fiscal stimulus in China and the expected one in the USA. In the same time the downside risks include the political uncertainty in some of the major economies, low commodity prices as well as increasing call for more protectionism.

The EU economies are still struggling with the recovery and although GDP is higher than before the crisis, growth is expected to remain stagnant in the following years. In 2016 GDP of the EU countries is expected to grow by 1.8%, while in the Eurozone it will be slightly lower at 1.7%. The forecast for the next year is growth to deflate somewhat to 1.6% and 1.5% respectively before rebounding in 2018. The European economy gained from one off factors such as the low energy prices and the depreciation of the euro which boosted the exports, but these will no longer be available in the near term. Domestic demand will contribute strongly, supported by the improving job prospects and a moderate wage growth. Unemployment rate finished at 10.1% at the end of 2016, but will decline relatively fast to 9.2% by 2018.

While the decision of UK to leave the European Union did not cause any immediate damage to the growth, the effects will be felt as the negotiations progress in earnest. Investments remain on the low side reflecting the low demand and the fact that some countries are still struggling to deal with the legacy of nonperforming loans. The monetary policy remains accommodating as ECB extended its Asset Purchasing Program until the end of 2017 and kept the negative interest rates. However, with inflation picking up from 0.4% in 2016 to 1.4% in the next two, ECB might face some pressure to start increasing the rates.

After the jump in 2015 when GDP increased by 3.6% the Bulgarian economy could not replicate its success in 2016 although the macroeconomic framework remains robust. Growth was 3.4% in the last quarter of the year, a respectable result given that many of the one-off effects which contributed to the growth in 2015 were not present last year. The most notable was the drop in the investments which were negative in 2016. After the accelerated absorption of the EU funds before the end of the program

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

BUSINESS OVERVIEW (continued)

period at the end of 2015, the rate of investments for the new program period remains low. In total, gross fixed capital formation was -1.5%, well below the 2.7% in 2015.

The driver of the economy in the last quarter of 2016 was the external sector which grew by 9.1%. After a weak start in the first two quarters of the year, the exports recovered strongly in the next two, while imports were much lower than in 2015. Consumption continues to disappoint growing by just 0.9% in Q4 2016 despite the falling unemployment and rising disposable income. The public consumption was negative due to the conservative fiscal policy in the beginning of the year which led to record budget surpluses only to be followed by a spending spree at the end of the year. The gross value added increased by 3.1%. The sectors with the biggest contribution were agriculture (7.1%) and real estate (6.4%). The financial and insurance sector as well as information and communication also performed strongly growing by 3.0% and 2.5%.

In total, exports increased by 2.6% in 2016 to BGN 46.1 billion. In the first half of last year the growth was negative, as exports to third countries shrank by more than 20% due to the crises in the main trading partners such as Russia, Ukraine and Turkey. It began to recover in the following months, but was still 5.9% down for the full year. This was fully compensated by the trade with the EU countries to which Bulgaria exported 7.2% more goods and services than in 2015. The biggest increase came from the manufactured goods which is a very positive sign that the Bulgarian economy is moving up the value chain and exporting more final products rather than raw materials. Imports also saw a sharp decrease in the beginning of the year and for 2016 Bulgaria imported 1.1% less (CIF prices) than in 2015 entirely due to the lower import of mineral fuels and oils.

Foreign direct investments in 2016 decreased by 40.3% YoY to EUR 684 million. Equity investments show the biggest drop by 80% to EUR 222 million although this could be partially explained by a large investment which was completed in the third quarter of 2015. Reinvested profit decreased moderately by 7% to EUR 638.5 million, while the debt instruments were actually negative at - EUR 178 million. The biggest share of investments came from the Luxembourg (EUR 136 million, 19.9% of total), followed by Netherlands (EUR 128 million, 18.8% of total) and UK (EUR 118 million, 17.3%).

The consumer price index turned positive for the first time in the last 4 years. The annual inflation was 0.1% in December 2016 as the prices of energy and food started to rise in the second half of the year and could no longer compensate the rising prices of the services. Prices with the highest increase for the year were education (3.4% YoY) and alcohol and tobacco (2.4% YoY). On the other extreme were the prices of communication (4.8% decrease YoY) and furnishing (2.0% decrease), while food prices rebounded strongly in the last month of the year reaching 1.1% on an annual basis. Inflation is expected to keep rising and reach 1.5% at the end of the year driven by the higher prices of food, energy and excise goods.

The labour market is recovering faster than expected and some sectors are already experiencing a shortage of qualified staff. In 2016 the unemployment rate fell by 2 pp. to 8.0%, the lowest since 2008. Employment ratio among the age group 15 - 64 is rising to 64.2%, very close to the highest level since 2003. However, worsening demographic trends mean that the number of employed is some 400 thousand people below its peak.

The number of unemployed fell to 261 thousand, levels last seen at the end of 2009. The recovery is not uniform throughout the country – in the biggest cities the unemployment rate is around 5%, while in some areas (mostly in northwest and northeast) it is still above 25%. Although falling in the last two years, the unemployment rate is still the highest among the youngest age group 15-24 – reaching 22.0% which is also higher than the average for the European Union. The pressure on the labour market is causing a rise in the salary levels. In the last year the average salaries rose by 8% with some sectors (commerce, entertainments and IT) rising up with double digit rates.

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

BUSINESS OVERVIEW (continued)

After years of running fiscal deficits the budget finished on a surplus for the first time since 2008. The surplus was BGN 1.47 billion (1.6% of GDP) which came from a deficit of BGN 743 million from the national budget and a surplus of BGN 2.21 billion from the European funds. Stronger revenues and lower capital expenditures than initially planned are behind the surplus. The revenues increased by 5.4% (BGN 1.75 billion), compared with the previous year with almost half of the contribution (BGN 813 million) coming from the VAT which grew by 10.5% on an annual basis. Income taxes benefited from the rise in the salaries and the increase of the employment and added another BGN 441 million to the surplus (9.6% higher than in 2015). On the other hand, capital expenditures for the year were BGN 1.98 billion or just 79% of the annual plan. The budget also gained from the lower interest payments which were below 90% of the budgeted amount, saving some BGN 80 million.

At the end of 2016 the government debt was EUR 13.76 billion (29.4% of GDP) rising from EUR 11.64 billion at the end of 2015 (25.7% of GDP). In March 2016 the Bulgarian government issued EUR 1.99 billion 7 and 12 year bonds with record low yields. Still, Bulgaria has the third lowest government debt among the EU countries and will not issue any external debt in 2017.

The credit rating of the country was confirmed by two of the major credit rating agencies Fitch (long-term rating of BBB- in foreign and local currency with stable perspective) and S&P (long-term rating of BB+ in foreign and local currency with stable perspective), while Moody's did not have an update in 2016 and the credit rating remains unchanged – Baa2 in foreign and local currency with stable perspective.

Banking system

The Bulgarian banking system had probably the most successful year since the end of the crisis. The major challenge for the year – the Asset Quality Review (AQR) and stress test conducted by BNB, was successfully passed confirming that the system is in good shape and resilient to shocks. The average CET 1 ratio of the 22 local banks as of 31 December 2015 before the AQR adjustments was 20%, while in the adverse scenario at the end of the third year after the AQR adjustments, the CET 1 ratio was estimated at 14.4%, which is even above the minimum required ratio for business as usual conditions. The system remains well capitalized – the total capital adequacy ratio of the Bulgarian banks increased from 22.2% at the end of 2015 to 22.8% as of 30 September 2016.

The deposit driven growth of the banks continues. Total assets increased by BGN 4.57 billion (5.2% YoY) to BGN 92.1 billion, while the deposits from clients other than credit institutions grew by BGN 4.85 billion (7%) to BGN 74.1 billion. The bigger part of the delta still comes from the households (BGN 2.8 billion new deposits in 2016).The saving rate is gradually declining over the last two years - clients are looking for more attractive investment opportunities for their savings as can be seen in the renewed interest in the real estate market and the rise of the assets of the investment funds.

The inflow of deposits created a significant new liquidity that could not be absorbed by the lending and is held as liquid assets. The liquidity ratio improved from 36.7% to 38.2% between 2015 and 2016 with the banks holding liquid assets in excess of the regulatory minimum required totalling BGN 30.3 billion as of theyear end. This drove further down the interest rates on deposits and at the end of December the average interest rate on the deposits from households was about 0.5%, while for the companies it was below 0.2%.

The above translated into lower rates on the new loans as the banks were trying to find more profitable use for their liquidity – a process also encouraged by the introduction of negative interest rates on the excess reserves by BNB in the beginning of the year. Lending increased only modestly – gross loans rose by BGN 350m (0.6% YoY) to BGN 54.46 billion. Loans to non-financial companies decreased slightly by BGN 105m to BGN 33.18 billion and consumer loans by BGN 40 million to BGN 8.68 billion. The mortgage loans rose by BGN 8 million to BGN 8.77 billion with the rest of the delta coming from financial companies, other loans and government.

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

BUSINESS OVERVIEW (continued)

However hidden behind these numbers is the fact that the banks are actively cleaning their portfolios, writing off and selling non-performing loans. Performing loans increased by BGN 1.41 billion, while the no-nperforming exposures fell by more than BGN 1 billion. As a result the NPE ratio decreased by 2 pp in 2016 to 18.3%, while the NPE coverage improved by 1.4 pp to 52.9%.

The decrease of rates on the new loans continues to erode the interest income of the banks. Interest income was down 9% to BGN 3.32 billion, although this was fully compensated by the interest expenses which dropped by 42% to BGN 511 million. As a result the net interest income (BGN 2.81 billion) was slightly higher than in 2015. Total income decreased by 3% to BGN 4.08 billion, however, it was influenced by two major factors such as the impact from the finalization of Visa Inc. acquistion of Visa Europe transaction and the related payment of an up-front cash consideration and issue of preferred stocks which was recorded as an one off gain by the Bulgarian banks (positively) and the booking of the costs for the Deposit Insurance and Bank Restructuring funds (negatively) which previously were part of the administrative expenses. The latter is also the reason behind the decrease of the non-intererst expenses which fell by 10% to BGN 1.83 billion.

With the non-performing exposures on a downward trend the banks were able to reduce the provisions for impairment. Compared with 2015, provisions were down by 26% to BGN 814 million, the lowest since the crisis. All of the above helped propel the net profit by 40% to BGN 1.26 billion and the return on equity to 10.4%.

Major Changes In The Regulatory Environment

In July 2016 the new Law on the credits for immovable properties of consumers came into effect, transposing Directive 2014/17/EU. The law aims to ensure that all consumers who take out a mortgage to purchase a property are adequately informed and protected against the risks. It also gives the right to the consumers to repay their loans early, thus benefiting from a reduction in the total remaining cost of the mortgage. In such cases, lenders are entitled to fair compensation for any costs directly and exclusively linked to early repayment.

In September 2016 the amendments in the Law on payment services and payment systems came into effect, transposing Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features. The banks are obliged to provide to their clients a payment account with basic features and transparent fee information as well as to facilitate the payment account switching.

In December 2016 the BNB Governing Council identified 10 banks as other systemically important institutions (O-SIIs) and set the level of the buffer applicable to the total risk exposure. The level of the buffer is set at 0% for 2017 and will rise incrementally until 2020 to between 0.5% and 1% of the total risk exposure amount depending on the profile of the bank.

Eurobank Bulgaria performance and key indicators

The past year was most successful for the Bank delivering a net profit of BGN 119.57 million, or 11.22% return on equity. The result was due to a combination of factors, including the acquisition of the Alpha Bank's branch in Bulgaria, higher sales of new loans, measures to expand the sources of income and reduction of the cost of funds, as well as lending portfolio quality improvement.

Total assets increased by BGN 1,065 million (18.5% YoY) to BGN 6,818 million, with deposits from customers having the biggest contribution – BGN 919.5 million (20% YoY) to BGN 5,524 million. About half of the net deposit delta came from Alpha Bank's Bulgaria branch but even net of this effect the deposit growth outpaced the market. Corporate deposits rose by close to 60% to BGN 1,094 million, while retail deposits were up by 13.3% to BGN 4,430 million.

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

BUSINESS OVERVIEW (continued)

The Bank is fully self-funded with deposits from clients constituting 98% of all attracted funds and has a strong liquidity buffer - liquidity ratio improved by more than 9 pp to 40.12%. Debt issued and other borrowed funds decrease by BGN 82 million because of the repayment of the two subordinated term debt contracts in September 2016.

Net loans increased by 8.2% to BGN 4,214 million. Two opposing factors influenced the volume of gross loans in 2016 – the acquisition of the branch of Alpha Bank in Bulgaria on the positive side and the sale of non-performing loans in the opposite direction. In the beginning of 2016 Eurobank Bulgaria sold a portfolio of unsecured consumer loans and credit cards of BGN 140.1 million with impairment of BGN 121.9 million, realizing a positive gain from the transaction. Because of this, the consumer lending portfolio decreased by BGN 58 million to BGN 648.4 million. Mortgage loans portfolio increased by BGN 239 million, while the SBB loans remained almost flat at BGN 713 million. The corporate portfolio was under increased pricing pressure from the main competitors, nevertheless, it was up by BGN 42 million to BGN 1,695 million. The quality of the loan book is improving with loans past due more than 90 days down by 3.2 pp. to 15.3%. The coverage ratio fell by 5 pp to 58%, but again this is fully attributed to the sale of the non-performing portfolio.

The improving macroeconomic outlook increased the demand for new retail loans which was met with adequate offers from the Bank. In 2016 the number of newly disbursed loans in the retail segment was up by a third, while the disbursed amounts were 50% higher than in 2015. The better sales results were supported by the enlarged branch network which at the end of 2016 numbered 174 retail locations (2015:144) including 9 specialized mortgage and SBB centers (2015: 7).

Eurobank Bulgaria has enough capital to pursue strong organic growth. In 2016 the CET 1 ratio improved by 1.15 pp to 23.33%, because of the capitalization of the net profit for 2015 and the BGN 107.6 million share capital increase in March 2016 which was fully subscribed by Eurobank Ergasias. The latter enabled the acquisition of the branch of Alpha Bank in Bulgaria not to have negative impact on the capital adequacy of the institution and the Bank to retain its capital ratios significantly above the minimum required ones. After the successful completion of the AQR and the announcement of its results, in September 2016 the Bank obtained permission by BNB to repay the remaining two subordinated term debt contracts for BGN 97.8 million, optimizing the structure of the attracted funds and decreasing the interest expenses. The net AQR adjustments of BGN 44.55 million were fully covered by the impairment booked in 2016 and the surplus capital above the regulatory requirements which at the end of 2016 stands at close to BGN 405 million.

Interest income was under pressure from the increased competition in the market. Nevertheless, the acquisition of Alpha Bank's Bulgaria branch and the increased sales helped stabilize the interest income at the level of 2015. In the same time, the ample liquidity allowed for a further reduction of the cost of funds – interest expenses fell by 53% YoY to BGN 31.7 million, resulting in a 16% increase of net interest income. Net interest margin was thus successfully defended and stood at 4.2% in 2016. Net fee and commission income increased by a similar rate (17% YoY) as the enlarged clientele is banking more actively. Total income was positively influenced by one-off gains from the finalization of Visa Inc. acquisition of Visa Europe transaction and the sale of a portfolio of nonperforming exposures and rose by 23% to BGN 366.7 million. Cost to income ratio worsened slightly to 40.2% (2015: 37.8%), because of the higher cost base and integration expenses for the acquisition of Alpha Bank's Bulgaria branch. Provisions for loans impairment (BGN 69.76 million) were higher than in 2015, reflecting the increased lending portfolio, still provisions over net loans ratio remain stable.

Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2016.

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

RISK MANAGEMENT

The Bank considers risk taking as an integral part of its activities for achieving the strategic and business objectives. Risk taking is core to the financial business, and the operational risks are an inevitable consequence of being in business. Therefore, timely and effective management of risk is a key priority of the Bank's management.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of a combination of risks.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 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.

A consistent and effective framework for risk identification, assessment, monitoring and control has been fully documented by the Bank Risk Management unit, forming the basis for consistent definition of strategies, policies and procedures across all risk taking units within the Bank. 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 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. It is currently complemented by the Risk function. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The Bank Risk Management function is capturing all material risk sources across all portfolios and operations. Management is responsible for developing and maintaining processes and systems to ensure effective and efficient operations, adequate control of risks, prudent conduct of business, accurate disclosures both internally and externally, and compliance with internal and external rules.

The Bank's Risk measurement, monitoring, and control functions have clearly defined responsibilities that are sufficiently independent from position/risk taking functions. The Bank's internal control systems are designed to provide adequate segregation of duties, in order to prevent conflicts of interest with respect to the distinct functions of undertaking, approving, monitoring and controlling risks.

The Risk Management Unit has an active participation in the development and pricing of new products, the design of new procedures, in issues relating to business decision-making and to adopting the proper risk management and control mechanisms. The Bank ensures that proper identification of risks inherent in new products and activities is undertaken and that these are subject to adequate procedures and controls before being introduced or undertaken.

The Bank manages with higher priority the following major types of banking risks arising from its activities – credit risk, market risk, liquidity risk and operational risk.

Credit Risk

Credit risk is the risk related to the inability of customers/counterparty to fully repay the amounts due to the Bank within the period scheduled.

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.

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. 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

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

RISK MANAGEMENT (continued)

factors. The classification of retail clients is based on the full delinquency analysis by groups. 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.

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. 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.

In compliance with its risk strategy, the Bank targets the maintaining of low level of credit risk concentration by industries and at customer level.

The Bank makes assessment of the risk exposure, evolving from the loan portfolio by classifying and provisioning loans in compliance with the requirements of the IFRS and Impairment Policy applied on a monthly basis. The impairment provisions reflect the probability that management will not be able to enforce its rights and repossess collateral on defaulted loans.

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 and though may influence the Bank's profitability.

The corporate governance with respect to market risk control and supervision is defined in the Bank's Market & Counterparty Risk Policy, developed. It is further supported by 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 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 as well as to develop objective, transparent and consistent market risk information as a basis for sound decision making. The Market Risk Control function helps to align the Bank's organizational structure and management processes with best international banking practice and set minimum standards for controlling market risks and to link business strategy and operations with the objectives for risk control and supervision.

The Bank's market risk appetite is expressed in terms of nominal limits set on the exposures to market risks as well as through characteristics such as different types of allowed markets, products, countries, counterparties and currencies. 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.

The market risk measurement system measures 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. The Bank is exposed to the following main types of market risks:

a) Interest Rate Risk

Banking is related with a permanent maintenance of positions sensitive to the fluctuations in the prevailing levels of market interest rates, which influences the Bank's financial position and cash flows dynamics. Interest rate risk is the probability for potential change of the net interest margin which may increase as a result of such changes, but may also reduce or create losses in the event that unexpected movements arise. Interest rate risk may include re-pricing risk, yield curve risk, basis risk, spread risk,

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

RISK MANAGEMENT (continued)

volatility risk. The Management reviews the interest rate gaps and the interest rate mismatch and the necessary reprising that may be undertaken on a monthly basis.

b) 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.

c) Equity price risk

Equity price risk is the risk of the decrease of fair values as a result of changes in the levels of equity indices and the value of individual stocks. It may include outright risk, volatility risk, spread risk and dividend risk.

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.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

The Bank maintains appropriate liquidity policies which have to ensure prudent liquidity management practices are in place. Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

Market Risk Department is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios and is the unit which exercises an independent liquidity risk control function, escalating any excess in ratios to the respective management bodies.

The Management Board (MB) of the Bank assigns the Assets and Liabilities Committee (ALCO) as the primary responsible body to advise for the strategic management of assets and liabilities with aim to manage the interest rate and liquidity risks of the Bank. On a strategic level ALCO manages the Bank's assets and liabilities to ensure regular and timely meeting of current and future obligations. Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding. The operational management of the Bank's liquidity and the execution of ALCO decisions regarding liquidity are assigned to the Head of Capital Markets Division.

The Banks's financial risk management objectives and policies, the exposure to credit risk, market risk and liquidity risk and sensitivity analysis for market risk are set out in notes W.1, 2 and 3 to the financial statements.

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

IMPORTANT EVENTS DURING THE YEAR

Postbank is the fifth bank in Bulgaria in terms of assets, and has a large branch network across the country, and considerable customer base of individual customers, companies and institutions.

Postbank has a 25-year presence among the banking market leaders in Bulgaria. It has been a leading factor in the innovations and trend setter in the banking sector in the country in recent years and has been awarded for its innovations many times. The financial institution is holding a strategic position in the retail and corporate banking in Bulgaria. It is among the market leaders in credit and debit cards, home and consumer lending, savings products, and products developed for corporate customers – from small companies to large international corporations represented in the country. The Bank has one of the best-developed branch networks and modern alternative banking channels.

In March 2016, Postbank acquired the operations of Alpha Bank-Branch Bulgaria, which was yet another step towards strengthening its position as a market systemic bank and expansion of its customer base. The operational merging was completed in the record short time of three months, and at the end of May the customers already used all the benefits of the bigger bank. The acquisition of the operations of Alpha Bank-Branch Bulgaria was a key event for the entire banking market. It was the first landmark deal in the ongoing process of consolidation, which is expected to bring even more stability and security in the banking system in the country.

The results of the asset quality review (AQR) of the Bulgarian banking system, completed in August 2016, showed that Postbank is well capitalized and financially stable. According to the AQR and stress test results, published by the BNB, the Bank's Common Equity Tier 1 capital (CET1) ratio was 19.7 percent even in the conditions of an adverse scenario. The combination of a strong capital position, high liquidity and AQR and stress test results allows Postbank to work towards its goals for achieving sustainable growth in the long term.

In June 2016, the Bulgarian Credit Rating Agency (BCRA) confirmed Postbank's BB+ long-term rating, a short-term rating of B, and changed the outlook from stable to positive. Again in June, the Bank was awarded also national long-term rating of A-(BG), positive outlook, which is improvement from the BBB+(BG), stable outlook, from the previous monitoring in January 2016.

In 2016, Postbank celebrated its 25th anniversary on the Bulgarian market by offering its customers special offers for the jubilee. Moreover, the Bank continued introducing its customer-oriented model by offering service in specialized locations and through modern electronic channels, to be developed further in 2017.

In June, Postbank opened its first Private Banking Centre in Bulgaria in partnership with Eurobank Private Bank Luxembourg. It offers customers of the Bank, who fit the respective profile, a range of investment services in discretionary asset management, wealth management and business consulting.

Once again, Postbank was the only financial institution from Bulgaria to reach the finals of the international competition for the best practices and excellent business achievements –European Business Awards. The Bank won its third consecutive award in the Innovations in Business category for the innovative Different Consumer Loan, which offers the customers the chance to receive back some of the interest on the loan. Furthermore, the bank offered many products and services along with its consumer loans, providing extra added value.

In 2016, Postbank reported its best year in consumer lending in the post-financial crisis period with the considerable growth of 32 % of newly issued loans.

In 2016, the Bank reported increase of over 40 % in loan applications submitted by entrepreneurs in the country from all economic sectors. For a third consecutive year, Postbank's efforts were assessed by the European Bank for Reconstruction and Development through the recognition Most Active Bank in Bulgaria in Commercial Financing.

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

IMPORTANT EVENTS DURING THE YEAR (continued)

Postbank also received two prestigious STP Excellence Awards for high quality of foreign currency transactions in EUR and USD for 2015, awarded by Deutsche Bank – the Bank's long-standing partner in correspondent banking.

In September, Postbank signed a new agreement with the National Guarantee Fund (NGF) – a subsidiary of the Bulgarian Development Bank (BDB), on the second guarantee programme for agricultural producers, which is implemented with the financial support of the Ministry of Agriculture and Food. In 2016, Postbank registered considerable year-on-year growth of over 25 % of issued loans both to the agricultural sector and the other economic sectors.

Postbank retained its leadership position in purchased receivables on the factoring services market for a third consecutive year, and it is Factor #1 in Bulgaria with 35 % market share of the overall factoring services volume and with over 68 % share of the export factoring. The Bank has attracted both new corporate customers and new counterparties of existing customers, building a strong profitable portfolio.

Throughout the year, Postbank continued organizing the series of specialized conferences, titled Postbank Meets the Business, in support of the business in the country. In 2016, the bank's team visited Pleven, Russe, Veliko Tarnovo, Stara Zagora, Lovech, Sliven, Blagoevgrad, Pernik, Kyustendil, Shumen, Razgrad and Dobritch. At the meetings, the bank experts presented to the local business representatives strategic solutions in support of the business in the respective regions.

NEW PRODUCTS

In 2016, Postbank introduced more innovative products, focusing on offering convenience and additional benefits to the customers.

The Bank presented a new type of product – Different Consumer Loan, with which imposed new standards in the consumer lending in Bulgaria. After the success of the innovative Saving Mortgage Loan, developed by the Bank, the Different Consumer Loan was yet another modern offer, which established the financial institution as a factor in the introduction of new trends in the banking sector. This pioneering product allows the customers not only to finance their needs at favourable conditions but also to receive back some of the interest rate paid throughout the loan term.

Saving Mortgage Loan is one of the most successful products of the financial institution that has won several international awards in prestigious competitions, including the European Business Awards and Effie Bulgaria. The product key advantage is the option to automatically lower the interest rate depending on the amount of funds deposited in the Bank, and in 2016, it was offered with even more favourable conditions.

In 2016, the Bank changed the organizational structure in its Individual Banking and Alternative Channels Division. The newly created department in the Division, titled Digital Banking, is responsible for the banking products digitalization, including all electronic channels and services, offered by the Bank. At the beginning of May 2016, Postbank presented its modern mobile banking application m-Postbank. By the end of 2016, the application has generated 19,000 downloads and has registered the highest rating among the mobile banking apps in Bulgaria.

In July, Postbank launched an entirely new product on the Bulgarian market – the online video loan One Click. It allows the customers to receive free of charge online video consultation via Skype from the Bank's experts who can fill in the loan application even during the conversation. The Bank commits to give a quick reply within two hours after the submission of the loan application, within the office hours. This alternative and convenient service is yet another step of the financial institution in the development of modern and innovative financial solutions that meets the individual needs of its customers.

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

NEW PRODUCTS (continued)

Postbank introduced another new service, which again provides a modern way to use banking services. "Mobile Bankers" are bank experts who provide free consultations in Sofia to existing and future customers of the financial institution. The mobile bankers answer all questions concerning consumer and mortgage loans, overdrafts and credit cards in a time and place of the customer's choice specified in advance.

Ten Bulgarians participated in the Beyond Hackathon competition at Postbank's invitation, which is part of the initiatives of Eurobank's Innovations Centre, which is aimed at inspiring, developing and promoting open innovations in the financial services area. The Bulgarian Imperia Mobile team ranked among the best teams in the regional competition. The Bulgarians won the third place with their innovative solution iBank which impressed the jury with functionalities, such as augmented reality, payment by a fingerprint, camera scanning of credit and debit cards to log in the application, and a new way to make direct transfer between the Bank's users who use the application.

To meet the consumer demand for more profitable investment opportunities, Postbank, in partnership with Bulstrad Life Vienna Insurance Group, offered a new product. Everest Investment Insurance Product is based on a specially developed insurance programme for deposit and investment in a structured product based on EURO STOXX 50, which allowed for the achievement of attractive profitability over time.

SUSTAINABLE DEVELOPMENT

In addition to its main activities, Postbank also focused on the needs of the local community by supporting programmes and initiatives together with established institutions and organizations. In 2016, the Bank implemented a number of socially significant projects in the field of education, early child development, environmental protection, sports and corporate donations.

Young people and children are in the focus of Postbank's corporate social responsibility programmes. The Bank continued to provide support to UNICEF's project to develop a network of Maternal and Child Healthcare Centres to help families care for their children. Since the launch of the three-year project Best Start for Every Child in 2013 the financial institution raised over BGN 800 thousands.

Support for the education has always been part of the corporate social responsibility projects developed and supported by Postbank. In 2016, the financial institution supported the National Trade and Banking High School and committed to becoming mentor of one of the school banks. Postbank Next students' team deservedly won the first place in the school competition.

This year, the Bank also supported the conferences of Capital Weekly – Innovations for Better Education, and Bulgaria on Air's Education and Business. The events were aimed at promoting the successful practices that make the school innovative through the use of modern education methods and new technologies.

The Bank's team enthusiastically joined also a project of the American College in Sofia – The School Meets the Business. Four 12-graders from the college purposefully and determinedly chose to meet Postbank's team because they identified it as a leader in the banking services, and innovative products, and as a company awarded for its responsible and sustainable business in Bulgaria.

In June, for yet another year, Postbank was the main partner of the charity relay run Postbank Business Run, organized annually by the Runner Club Begach. A record number of participants signed up – 259 teams of 109 companies from various sectors, competed again in support of the cause of For Our Children Foundation – more children to stay with their families. Thanks to the initiative, the collected amount is nearly double the one collected in the previous year – BGN 14,730. The financial institution also received special recognition from Begach for participating in Postbank Business Run 2016 with the most teams in the "Company with over 500+ Employees" category.

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

SUSTAINABLE DEVELOPMENT (continued)

Postbank invested also in supporting sports teams – the bank has been supporting Dobritch's volleyball team Dobrudzha 07 since 2015. In 2016 the team became the new volleyball champion of Bulgaria.

In September, Postbank joined the global initiative PARK(ing) Day, organized by Credo Bonum, for a fourth consecutive year. Within the campaign, the financial institution surprised Sofia residents with the dedicated green corner in front of its office on Tzar Ivan Shishman Str. Within the event, titled Charger with a Heart, all who wished could ride a bicycle and take care of their own health and the environment by generating green energy to charge their mobile device with a special charger, which converts the mechanical energy into electricity.

Smile Art Fest – the travelling caricature exhibition was implemented with Postbank's support and toured five of the largest cities in the country. The exposition included interpretations of popular caricature masters on the theme Destination Balkans – Destination Bulgaria. As the main sponsor of the festival, Postbank added another competition category – Destination: Future – the future in the life of the Bulgarian people and the Balkan nations close to them in spirit and soul, as seen from the point of view of the contemporary technologies. The festival was organized by Imeon-Balkans Foundation in partnership with the Union of Bulgarian Artists, the Federation of Cartoonist Organizations (FECO), the Union of Bulgarian Philatelists and the Bulgarian Diplomatic Society.

Postbank is the only Bank in Bulgaria with its own Green Board and an Environmental Office unit in its organizational structure that work to protect the environment both in terms of limiting the resources consumed by the Bank and in terms of its financing activities.

Throughout the year, the Bank continued to provide its long-standing support for and work with socially disadvantaged groups and continued to encourage their active role in the society. Throughout the year, support was provided to disadvantaged children in Kazanlak, to elderly people in Russe, to the only School for Guide Dogs in Bulgaria, the national campaign Easter for Everyone – Give a Feast to Grandparents, and many other smaller initiatives.

AWARDS:

- Innovations in Banking Products and Services – an award from the fifth anniversary edition of Forbes Business Awards.
- Special award for supporting the financing of small and medium enterprises on behalf of Business Club Magazine for the disbursal of low-rate working capital and investment loans to small and medium enterprises under the Forward Programme.
- Sustainable Development Campaign – an award from the prestigious PR and Communications competition – BAPRA Bright Awards, for the project Best Start for Every Child.
- Innovative Campaign of the Year – an award from the prestigious PR and Communications competition BAPRA Bright Awards for the project Best Start for Every Child.
- Campaign Implemented by Internal PR Department – an award from the prestigious PR and Communications competition BAPRA Bright Awards for the campaign On the Wings of Success.
- PR Project for Internal Communication – an award from PR Prize 2016 for the On the Wings of Success campaign, third place.
- Green Communications and Urban Environment – an award from PR Prize 2016 for the Flying City Dwellers campaign, third place.
- Online Company or Project – an award from PR Prize 2016 for the Finances by the Note campaign, third place.
- Special award of Manager Magazine for the Flying City Dwelelrs project from PR Prize 2016.
- Special recognition by Runner Sports Club for participating with the highest number of teams in the "Company with over 500+ Employees" category at Postbank Business Run 2016.
- Bronze statuette from EFFIE Bulgaria 2016 in the Corporate Communications category for the campaign launched for the Bank's 25th anniversary.

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

AWARDS (continued):

- First place in the category "Re launch of a product” - Best marketing team award with the product "Credit for the excellent" by the Bulgarian Association of Advertisers (BAR).
- Two prestigious STP Excellence Awards for high-quality currency transactions in EUR and USA in 2015 from Deutsche Bank, the bank's long-standing partner in correspondent banking.
- National Champion of Bulgaria in the European Business Awards' Innovations category for the innovative Different Consumer Loan.
- The special Bank Deal of the Year award for the acquisition of Alpha Bank Bulgaria from the traditional competition – Annual Bank Awards of the Bank of the Year Association.
- The Golden Heart award in the Green Planet category for the Charger with a Heart project from the Annual charity and corporate social responsibility awards Golden Heart of Business Lady Magazine.

SHARE CAPITAL STRUCTURE

As at 31 December, 2016 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 with a nominal value of BGN 1 per share. Eurobank Ergasias S.A. owns directly 47.12%, another 43.85% of the share capital is owned by ERB New Europe Holding B.V., 9.02% by CEH Balkan Holdings Limited and 0.01% by minority shareholders.

MANAGEMENT BOARD

As at 31of December, 2016 the Management Board consisted of the following members:

- Petia Dimitrova – Chief Executive Officer and Chairperson of the Management Board;
- Dimitar Shoumarov – Excutive Director, Chief Financial Officer and Member of the Management Board;
- Asen Yagodin – Executive Director and Member of the Management Board;
- Iordan Souvandjiev – Chief Risk Officer and Member of the Management Board.

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

In 2016 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.

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

MANAGEMENT BOARD (continued)

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

- **Petia Dimitrova**

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;

International Banking Institute OOD, Bulgaria – Member of the Management Board;

Borica-Bankservice AD – Member of theBoard of Directors;
Fondation Atanas Burov – Member of the Management Board.

- **Dimitar Shoumarov**

IMO Rila EAD, Bulgaria – Member of the Board of Directors (until 28 September 2016);

IMO 03 EAD, Bulgaria – Executive Director and Member of the Board of Directors (until 9 September 2016) ;

ERB Leasing EAD, Bulgaria – Chairman of the Board of Directors(until 2 September 2016);
Chief Financial Officers Club, Bulgaria – Member of the Management Board.

- **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.

- **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 (until 28 September 2016);

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

Vinimpeks 21 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 2016.

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

SUPERVISORY BOARD

As at 31 December 2016 the Supervisory Board consisted of the following members:

- Georgios Provopoulos – Chairman of the Supervisory Board;
- Theodoros Karakasis – Deputy Chairman of the Supervisory Board;
- Stavros Ioannou – Member of the Supervisory Board;
- Michalakis Louis – Member of the Supervisory Board;
- Anastasios Nikolaou – Member of the Supervisory Board;
- Christina Theofilidi – Member of the Supervisory Board.

Mr. Georgios Provopoulos was officially appointed as members of the Supervisory Board on 29th of January, 2016.

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

In 2016 two members of the Supervisory Board received remunerations from the Bank in their capacity of Supervisory Board members (included in Note 29).

2. Shares and bonds of the company that are acquired, owned and transferred by the members of the Supervisory Board during 2016

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

None of the present members of the Supervisory Board has been a partner or shareholder holding 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

- **Georgios Provopoulos**

Eurobank Private Bank Luxembourg S.A. – Vice Chairman of the Board of Directors (effective as of 11th of February 2016).

- **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;

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

SUPERVISORY BOARD (continued)

Eurobank A.D. Beograd, Serbia – Member of the Management Board;
ERB Property Services Sofia A.D., Bulgaria – Chairman of the Board of Directors;
Bulgarian Retail Services A.D., Bulgaria – Chairman of the Board of Directors;
CEH Balkan Holdings Limited, Cyprus – Member of the Board of Directors;
Greek-Serbian Chamber of Commerce – Deputy Chairman of the Board of Directors.

- **Stavros Ioannou**

Eurobank Ergasias S.A., Greece – Deputy Chief Executive Officer, - Group Chief Operating Officer & International Activities, Member of the Executive Board, Member of the Strategic Planning Committee;
Eurobank Business Services S.A., Greece – Deputy Chairman of the Board of Directors;
Eurolife ERB General Insurance S.A., Greece – Member of the Board of Directors (until 4th of August 2016).
Eurolife ERB Life Insurance S.A., Greece – Member of the Board of Directors (until 4th of August 2016);
Be – Business Exchanges S.A., Greece – Chairman of the Board of Directors;
Eurobank Property Services S.A., Greece – Member of the Board of Directors;
Eurolife ERB Insurance Group Holdings S.A., Greece – Member of the Board of Directors; (until 4th of August 2016).
Eurobank A.D. Beograd, Serbia – Member of the Management Board;
Eurobank Cyprus Ltd, Cyprus – Member of the Board of Directors

- **Michalakis Louis**

Eurobank Ergasias S.A., Greece - Head of International Activities General Division, Member of the Executive Board ;
Eurobank Private Bank Luxembourg S.A., Luxembourg – Member of the Board of Directors;
Bancpost S.A., Romania - Member of the Board of Directors;
Eurobank a.d. Beograd, Serbia - Chairman of the Management Board;
CEH Balkan Holdings Limited, Cyprus - Member of the Board of Directors;
Eurobank Cyprus Ltd, Cyprus - Chief Executive Officer
NEU Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
NEU II Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
NEU BG Central Office Limited, Cyprus – Chairman of the Board of Directors;
NEU 03 Property Holdings Limited, Cyprus – Chairman of the Board of Directors;
ERB New Europe Funding III Limited, Cyprus – Chairman of the Board of Directors;
Public Joint Stock Company "Universal Bank", Ukraine, Member of the Supervisory Board (until 23rd December 2016).

- **Anastasios Nikolaou**

Eurobank A.D. Beograd, Serbia – Member of the Management Board;
PJSC "Universal Bank", Ukraine – Member of the Supervisory Board (until 23rd December 2016).

- **Christina Theofilidi**

Eurobank Ergasias S.A., Greece – General Manager Individual Banking (effective as of 2nd of September 2016), Member of the Executive Board
Eurobank Financial Planning Services Societe Anonyme, Greece – Deputy Chairman of the Board of Directors; (until 27th of October 2016)

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

SUPERVISORY BOARD (continued)

Eurobank Remedial Services Societe Anonyme , Greece – Member of the Board of Directors; (until until 27th of October 2016)
Eurobank Household Lending S.A., Greece – Vice Chairman of the Board of Directors (effective as of 4th of November 2016)
ERB Retail Services IFN S.A., Romania - Member of the Board of Directors;
Tiresias Bank Information Systems S.A., Greece - Non-Executive Director.

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 Commercial Act during 2016.

BANK STRUCTURE

Eurobank Bulgaria does not have any subsidiaries as at 31 December 2016 and therefore no consolidated financial statements are prepared at this entity level. The Bank employs 2,640 people (2015: 2,207).

OBJECTIVES FOR 2017

In 2017 the main objectives of the Bank will be to build upon its achievements in 2016 and continue to deliver double digit return on equity to its shareholders. The Bank will maintain its leading position in the market and strengthen the long-term relationship with the clients.

The solid capital adequacy and liquidity buffers will be kept, ensuring that Eurobank Bulgaria has enough resources to grow organically and expand its lending activities without compromising the prudent risk appetite. The positive economic outlook will increase the demand for loans in all client segments and will help utilize some of the excess liquidity. Cost of funds will be further optimized to the extent possible in order to sustain interest margins in the increasingly competitive environment.

Further enhancing the transactional business is a must in an environment of low interest rates in order to compensate the market pressure on the interest income. With the acquisition of Alpha Bank's Bulgaria Branch completed, costs will return to its normal level with the aim to bring the cost to income ratio firmly below 40%. However, investments in innovative solutions and alternative distribution channels will be expanded in order to improve the speed of service and customer experience.

The activities related to improvement of the quality of the portfolio and reduction of the share of nonperforming loans will be strengthened. In the meantime, the preparations for the introduction of IFRS 9 are ongoing and the Bank will be completely ready to apply it from 1 January 2018.

The long-term strategy of the Bank remains unchanged - to be the bank of first choice for its customers. Gaining the trust of the clients requires a flawless customer service through multiple channels and a genuine care in listening to their opinion. The Bank will continue to provide the most innovative and suitable products and quality services while meeting the constantly evolving expectations of the customers thus creating value for them and the shareholders.

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

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

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

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

29 March 2017
Sofia, Bulgaria

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

CORPORATE GOVERNANCE STATEMENT 2016

1. Corporate Governance Code and Practices.
In compliance with the Bulgarian legislation, and based on the international best practices on corporate governance, Eurobank Bulgaria AD ("the Bank") observes the National Corporate Governance Code ("Code"), which describes the basic corporate governance principles and practices.

2. Compliance with the National Corporate Governance Code
The Bank observes and complies in entirety with the Code. The Bank's Articles of Association ("AoA") and all adopted internal rules and manuals are in a full compliance with the Code and the applicable legislation. Presently there have not been any ascertained cases of non-compliance with the Code.

2.1. Internal Corporate Governance Code

The Bank has developed and adopted its Internal Governance Control Manual ("IGCM") and strictly applies its guidelines. The IGCM of the Bank covers the content and it is in full compliance with the framework set by the Code.

2.2. Ethics Code

In the scope of ethics the Bank has adopted and currently applies a document named Code of Conduct, containing rules in addition to the requirements of the legal framework which aim at setting minimum common internal rules and principles of professional and ethical conduct to be followed by the Staff of the Bank during the performance of their duties.

2.3. Conflict of interest

Procedures for preventing and detecting conflicts of interest in the Bank are incorporated in Internal Rules for Managing Conflict of interest. In accordance with these procedures, Executive Directors and other members of Management have a duty to inform the Supervisory Board / Management Board respectively of any personal interests they may derive from Bank's transactions that fall under their field of responsibility or any other conflict between their and the Bank's interests that may occur, in carrying out their duties.

2.4. Remuneration

The adopted Remuneration Policy of the Bank forms an integral part of the Bank's corporate governance practice and is developed in accordance with its operational model, business strategy, short and long- term interests of the Bank and incorporates measures to avoid conflict of interest. Also, the Remuneration Policy is consistent with and promotes sound and effective risk management and does not encourage excessive risk-taking on behalf of the Bank. Accordingly, the operating standards and mechanisms which have been adopted ensure that the levels of remuneration are directly linked to results and desired behavior.

The 2016 Boards and key management remuneration disclosures are included in Annual Disclosures according to the requirements of Regulation (EU) 575/2013 (art. 431-455).

3. Composition and operation of General Meeting of the Shareholders, the Supervisory Board, the Management Board and their Committees.

3.1. General Meeting of the Shareholders

The General Meeting of the Shareholders ("GMS") comprises all shareholders with a right to a vote. They participate in the General Meeting personally or by a proxy, authorized by a written power of attorney. The shareholders and their proxies shall have in the General Meeting as many votes as they have shares in the capital of the Bank. The members of the Supervisory Board and the Managing Board may attend the General Meeting but without right to vote unless they are shareholders. The members of the Internal Audit Division and the Bank's auditors elected to audit and certify the Bank's annual financial statements may attend the General Meeting but without right to vote.

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

3.2. Supervisory Board and Supervisory Board Committees

The Supervisory Board ("SB ") is a permanent collective body which exercises overall control over the business and financial activities of the Bank and also ensures the conformity of the Bank's activity with the applicable law, the Statute and the resolutions of the General Meeting of the Shareholders ("GMS") in the best interest of the Bank's shareholders, customers and employees. The SB may consist of 3 (three) to 7 (seven) members, elected by the GMS, for a term of three (3) years. The composition of the SB consists of 6 (six) members for the whole year 2016. The SB adopts its Terms of Reference "ToR" and appoints a Chairperson and a Deputy Chairperson from among its members.

The members of the SB are obliged to perform their functions with duty of care and in the best interest of the Bank and its shareholders and to place the interest of the Bank and its clients above their own interest when performing their duties.

Currently, the members of the Supervisory Board are:

- Chairman of the Supervisory Board - Georgios Provopoulos;
- Deputy Chairman of the Supervisory Board - Theodoros Karakasis;
- Member of the Supervisory Board - Stavros Ioannou;
- Member of the Supervisory Board - Michalakis Louis;
- Member of the Supervisory Board - Anastasios Nikolaou;
- Member of the Supervisory Board - Christina Theofilidi.

Mr. Provopoulos was officially appointed as a member of the Supervisory Board on 29th of January 2016 and as a chairman on 22nd of March 2016.

The Chairman and the Deputy Chairman are independent members.

The following Committees have been established to assist the Supervisory Board in discharging its responsibilities:

3.2.1. Risk Committee

The SB has delegated to the Risk Committee ("RC") the role of approving all strategic risk management decisions (e.g. risk appetite, capital allocation, balance sheet profile and risk management structure). The RC is in charge of monitoring the quantitative and qualitative aspects of all market, credit, liquidity and operational risks.

The members of the RC are appointed by the SB. Currently, the Risk Committee consists of the following members:

- Eurobank Bulgaria AD Chairperson of the SB – Chairperson;
- Eurobank Ergasias S.A. Head of International Activities General Division;
- Eurobank Ergasias S.A. Head of International Credit Sector;
- Eurobank Bulgaria AD Chief Risk Officer.

The RC meets at least quarterly. The RC meeting is effective when 2/3 of its members are present. The Chairman must be one of the participating members, or in his absence he should appoint his replacement from the other Risk Committee members.

3.2.2. Audit Committee

The Audit Committee ("AC") is appointed by the General Meeting of Shareholders following a proposal by the SB and its purpose is to assist the SB in discharging its oversight responsibilities primarily relating to:

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

- The review of the adequacy of the Internal Control and Risk Management systems and the compliance with rules and regulations monitoring process.
- The review of the financial reporting process and satisfaction as to the integrity of the Bank's Financial Statements.
- The External Auditors' selection, performance and independence.
- The effectiveness and performance of the Internal Audit function.
- The effectiveness and performance of the Compliance function.

In doing so, it is the responsibility of the Audit Committee to provide for open communication channels between the SB, Management, Internal Audit and External Audit.

The Audit Committee consists of three independent members who are appointed for a term of three years with the option to renew their appointment five (5) more times.

One of the AC members resigned effective 3rd of November 2016. A replacement member was identified and his formal appointment is pending GMS resolution.

The AC as a whole possesses the necessary skills and experience to carry out its duties

The AC meets at least four (4) times per year or more frequently, as circumstances require, and reports on its activities and submits the minutes of its meetings to the Supervisory Board on a quarterly basis. During 2016 the Audit Committee held four (4) regular and six (6) additional meetings.

3.2.3. <u>Remuneration Committee</u>

The Remuneration Committee ("RemCo") is a SB Committee which provides specialized and independent advice for matters relating to:

- remuneration policy and its implementation and for the incentives created while managing risks, capital and liquidity;
- safeguard the proper exercise of its duties and responsibilities, the efficient alignment of the personnel's remuneration with the risks the Bank undertakes and manages the required alignment between the Eurobank Ergasias S.A. and the Bank;
- approve or propose for approval all remunerations of the key management personnel.

The Committee consists of 3 to 5 members. The members are appointed biennially by the Supervisory Board. All Committee members are Non-Executive Directors and the majority of the members are Independent Directors. The Remuneration Committee currently consists of four (4) members.

3.2.4**.** <u>Nomination Committee</u>

The Nomination Committee ("NomCo") has the responsibility to consider and make recommendations to the SB on matters related to the adequacy, efficiency and effectiveness of the Management Board, and to the appointment of key management personnel as per the provisions of Art. 73c, para 1 of the Credit Institutions Act and Art.12 of Ordinance № 20 of April 28, 2009, on the Issuance of Approvals to the Members of the Management Board (Board of Directors) of a Credit Institution and Requirements for Performing their Duties (issued by Bulgarian National Bank).

The Committee currently consists of two (2) members.

3.3. Management Board and Management Board Committees

The Bank is managed by the Management Board ("MB") in accordance with the law, the Statute of the Bank, the Terms of Reference ("ToR") of the MB and other internal rules. The MB is a permanent collective body for management and representation of the Bank exercising its powers under the control of the SB and the General Meeting of Shareholders. The MB may consist of 3 (three) to 9 (nine) members, elected by the SB, for a term of three (3) years. The composition of the MB up to the end of 2016 consisted of 4 (four) members, three of whom appointed as Executive Directors. The MB

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

assigns, with the approval of the SB, the responsibilities for the management and the representation of the Bank to Executive Directors elected amongst Board's members. The authorization of the Executive Directors to represent the Bank can be withdrawn at any time by the MB, with the approval of the SB.

As at 31of December, 2016 the Management Board consisted of the following members:

- Chief Executive Officer and Chairperson of the Management Board - Petia Dimitrova;
- Excutive Director, Chief Financial Officer and Member of the Management Board - Dimitar Shoumarov;
- Executive Director and Member of the Management Board - Asen Yagodin;
- Chief Risk Officer and Member of the Management Board - Iordan Souvandjiev.

Management Committees are set to assist the MB. Such committees are:

3.3.1. Assets and Liabilities Committee

The Assets and Liabilities Committee ("ALCO") has primary responsibility to advise the MB on the strategic management of the Bank's assets and liabilities with the aim to effectively manage the interest rate and liquidity risks of the Bank.

The Committee consists of key management personnel both from Eurobank Bulgaria and Eurobank Ergasias, including executive directors & key management functions representing all Retail & Wholesale business units.

ALCO has the following authority:

- To advise the MB on the strategic management of the assets and liabilities;
- To take all necessary decisions regarding the interest rate gap and liquidity management;
- To set the target parameters of potential external funding;
- To review/monitor/establish business initiatives and/or investments that affect the bank's market and liquidity risk profile.

3.3.2. Regional Credit Committee

The MB has delegated to the Regional Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Ergasias S.A., including an Independent member.

3.3.3. Country Credit Committee

The MB has delegated to the Country Credit Committee the functions to deal with customers with ratings below a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria (including the CEO) and senior management Credit sector function from Eurobank Ergasias S.A.

3.3.4. Special Handling Committee I

The MB has delegated to the Special Handling Committee I the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaria's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Ergasias S.A., including an Independent member.

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

3.3.5. Special Handling Committee II

The MB has delegated to the Special Handling Committee II the functions to deal with customers above a certain level according to internal credit rating system and following the approval levels according to the Eurobank Bulgaira's Corporate Credit Policy Manual.

The Committee consists of senior management personnel from Eurobank Bulgaria (including the Chief Executive Officer) and senior management Credit sector function from Eurobank Ergasias S.A.

3.3.6. Troubled Assets Committee

The MB has delegated to the Troubled Assets Committee the supervision and control of the management of the troubled assets.

The Committee consists of senior management personnel from Eurobank Bulgaria, including the Chief Financial Officer and Executive Director, and other key management personnel in the area of TAG, Risk & Strategic Planning.

The main duties and responsibilities of TAC are the following:

- To monitor the management of loans in arrears and NPLs;
- To determine and implement the strategy regarding management of troubled assets and monitor the effective implementation of this strategy.

3.3.7. Loans and Products Committee

The Loans and Products Committee is responsible for the approval of new products, both in the retail and the wholesale areas.

The Loans and Products Committee consists of key management personnel including the Chief Executive Officer of the Bank.

3.3.8. Operational Risk Committee

The Operational Risk Committee ("ORC") has the responsibility to provide oversight of actual operational risk exposure and management and the processes implemented to assess, monitor and mitigate operational risk.

The Operational Risk Committee consists of key management personnel in the areas of Risk, Operations, IT, Finance, TAG, Retail & Corporate. There is also a non-voting member from Internal Audit Division.

3.3.9. Country Procurement Committee

The Country Procurement Committee ("CPrC") is a management committee subordinated to the MB. The main responsibilities are related to evaluating the cost, necessity and business justification of procurement capital expenditures and operating expenses.

The Committee consists of senior management personnel including the Chief Executive Officer, Chief Financial Officer and Executive Director and Chief Operating Officer.

3.3.10. Related Employees Committee

The Related Employees Committee ("REC") is responsible for monitoring proper implementation of the Bank's Relatives Employment Policy and for deciding about cases which deviate from the Policy.

The Related Employees Committee consists of senior management personnel including the Chief Executive Officer and other key management functions in the areas of HR, legal and others.

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

3.3.11. Environmental and Social Steering Committee

Environmental and Social Steering Committee ("ESSC") is a MB Committee which provides all strategic decisions within the scope of the Environmental Policy of the Bank.

The Committee consists of key management personnel in the areas of Operations, Legal, Risk, Corporate Communications and Marketing, Retail & Wholesale.

3.4. CEO Management Committees

The CEO is empowered to establish committees to assist him/her as required, assigning their responsibilities and appointing the members, the chairman and the secretary.

3.4.1. Executive Committee

The Executive Committee ("ExCo") has the responsibility for the day-to-day management of the Bank, considers all issues pertaining to the current activities of the Bank and adopt decisions on them as to manage the implementation of the Bank's strategy, plan, direct and control the Bank's activities to ensure high level of performance and customer satisfaction, establish adequate systems of internal control and ensure they are properly maintained, consider the monthly financial reports before their submission to the MB.

The Committee consists of senior management personnel including Chief Executive Officer and other Executive Directors and all other key management functions covering all areas of the Bank's activities.

3.4.2. Ethics Committee

The Ethics Committee ("EC") mainly deals with staff cases of fraud and/or gross negligence and meets when there are issues to be considered.

The Ethics Committee consists of senior management personnel including the Chief Executive Officer and Head of HR.

3.5. Main issues the SB dealt with during 2016.

In discharging its responsibilities for 2016 the main issues the Board dealt with are related to:

a) Governance:

- election of a new Chairperson and new Deputy Chairperson of the SB;
- preparation and convocation of GMS;
- approval of some Boards Committees' ToR;
- regular update on Board Committees' meetings.

b) Corporate and other actions:

- acquisition of Alpha Bank-Branch Bulgaria.

c) Capital Adequacy:

- review of the 2015 Internal Capital & Liquidity Adequacy Assessment Process (ICAAP & ILAAP) – Pillar 2 Report.

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

d) Business monitoring:
- approval of the 2015 annual financial statements;
- approval of the annual budget;
- review of business developments and liquidity.

e) Risk Management and Internal Control:
- review of annual reports on evaluation of Internal Control Systems and Compliance Polices;
- review of the 2015 Pillar 3 Report;
- review on the Risk & Capital Strategy and Risk Appetite Framework.

4. Board Diversity Policy

The Diversity Policy ("the Policy") sets out the approach to diversity on the MB and SB of the Bank and it is in accordance with international best practices and the EU and Bulgarian banking law provisions.

The Bank sees increasing diversity at Boards level as an important element in maintaining a competitive advantage. The diversity in the Boards includes and makes good use of differences in the skills, background, nationality, gender, age and other qualities of members. These differences are considered in determining the optimum composition of the Board and when possible should be balanced appropriately. All Bank's Boards appointments are made on merit, in the context of the skills and experience of the members in order to function effectively.

The NomCo is responsible to review and assess, on an annual basis, the structure, size, composition and performance of the members of the Boards and recommends the appointment of new members. In reviewing Board composition, the committee considers the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background.

5. System of Internal Controls and Risk Management Main Features.

The Bank aims to adopt best practices regarding corporate governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee on Banking Supervision, the European Banking Authority, the Bulgarian National Bank as well as any decisions of the competent authorities supervising the Bank.

As part of its overall system of internal controls the Bank has established a number of dedicated control functions whose main responsibility is to act as independent control mechanisms thus reinforcing the control structure of the Bank.

5.1. Principles of Internal Controls System:

The Bank has established a System of Internal Controls that is based on international good practices and COSO terminology and is designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- efficient and effective operations,
- reliability and completeness of financial and management information,
- compliance with applicable laws and regulations.

The key principles underlying the system of internal controls are described below:

- **Control Environment:** The control environment is the foundation for all components of Internal Control System, providing discipline and structure and influencing the control consciousness of employees. Integrity and high ethical values stem from management's philosophy and operating style and appropriate recruitment and training policies ensure the competence of the people.

- **Risk Management:** the Bank acknowledges that taking risks is an integral part of its business. It therefore sets mechanisms to identify those risks and assess their potential impact on the achievement of the Bank's objectives. Because economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms in place shall be set (and evolve) in a manner that enables to identify and deal with the special and new risks associated with changes.
- **Control Activities:** Internal control activities are documented in the policies and detailed procedures that are designed to ensure that operations are carried out safely and all transactions are recorded accurately in compliance with Management's directives and regulations. They occur throughout the organisation and business processes, at all levels and in all functions. One of the prime organisational measures to ensure control effectiveness in the Bank is segregation of duties. Functions that shall be separated include those of approval (limits, limit excesses, specific transactions), dealing, administration (administrative input, settlement, confirmation checks, transaction approval check, documentation check, file keeping, custody) and controlling (reconciliation, limit monitoring, excess approval check, risk management, compliance checks, physical counts).
- **Information and Communication:** Information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. The Bank has set effective communication channels to ensure that information is communicated down, across and up within the organisation. Mechanisms are also in place to obtain appropriate external information as well as to communicate effectively with outside parties including regulators, shareholders and customers.
- **Monitoring:** The Bank has established mechanisms for the ongoing monitoring of activities as part of the normal course of operations. These include regular management and supervisory activities and other actions personnel take in performing their duties that assess the performance of internal control systems. There are also independent evaluations of the internal control system by the Internal Audit function, the scope and frequency of which depend primarily on an assessment of risks and the effectiveness of ongoing monitoring procedures. Internal control deficiencies are reported upstream, with serious matters reported to the Management Board, the Audit Committee and the Supervisory Board.

5.2. Internal Audit

The Internal Audit function of Eurobank Bulgaria AD is an independent, objective assurance activity designed to add value and improve the Bank's operations. The Internal Audit Division (IAD) helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Management is responsible for establishing a system of internal controls that is adequate for the size and the complexity of the organisation. IAD is responsible for reporting on the adequacy and effectiveness of the system of internal controls.

In order to safeguard its independence IAD reports to the Audit Committee (AC) of the Bank and is independent of the Bank units with operational responsibilities and for administrative purposes reports to the CEO. The Supervisory Board has delegated the responsibility for monitoring the activity of the IAD to the Audit Committee.

IAD follows a risk-based methodology which examines the existence and adequacy of controls and assesses specific control objectives. IAD's work normally includes but is not restricted to the following:

- To provide reasonable assurance, in the form of an independent opinion, as to the adequacy and effectiveness of the internal control framework of the Bank. In order to form an opinion, IAD carries out audits based on an audit plan approved by the Audit Committee. The required frequency of audits depends on the level of risk in each business unit,
- To provide proactive support to the Management of the Bank in the promotion of internal controls and risk management through recommending best practices in internal control;
- To assist Management in the prevention of fraud and unethical practices.
- To follow-up aiming to ascertain that appropriate action is taken on reported audit findings within agreed deadlines.

5.3. Compliance

Eurobank Bulgaria AD carefully ensures that its structure and processes meet both external and internal requirements for its activities. The responsibility for that adherence has been delegated to the Compliance Division. The division has been established under the approval of the Supervisory Board and the Audit Committee of the Bank. The Compliance Division is a unit with permanent function, independent of the Bank's business activities.

In order to safeguard its independence, the Head of Compliance Division reports to the Audit Committee, to the Eurobank Group Compliance Sector and for administrative purposes to the CEO. The Head of Compliance attends all Audit Committee meetings and submits quarterly and annual reports summarising the Division's activity and highlighting the main compliance issues. These reports include all matters falling under the scope of the Compliance Division, which the Head of Compliance believes should be reported to the Audit Committee or matters specifically requested by the latter. Compliance Division duties and responsibilities indicatively include:

- handling issues related to Anti-Money Laundering and Combatting Financing of Terrorism, in accordance with applicable laws and regulations as well as existing sanctions. The Division is responsible for the development of the necessary policies and procedures as well as for monitoring adherence to them. Moreover, it is responsible for the provision of relevant training and guidance to the staff, as well as, for the cooperation with the relevant Authorities,
  - providing timely and accurate responses to requests arising from Regulatory and other Authorities as well as, co-operating with them in order to facilitate their work,
  - setting up internal codes of conduct and monitoring staff adherence to such internal rules,
  - monitoring compliance with legislative and regulatory provisions relating to the financial markets,
  - cooperating with other divisions of the Bank and its subsidiaries on handling issues of banking secrecy and data protection,
  - informing Management and providing advice regarding the impact of any new laws and regulations falling under the Section's scope of responsibilities.

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

5.4. Risk management

The Bank's risk governance framework comprises a number of different constituents. In particular, the Supervisory Board has set up a Risk Committee overseeing all risk management functions. It is currently complemented, by the Risk function.

The Risk Committee is empowered to:

- Review and analyze the Bank's risk profile, identify and assess significant risks;
- Develop adequate policies and procedures in order to identify, assess, monitor and control significant risks;
- Inform the SB about significant problems or developments that could have an impact on the Bank's risk profile;
- Monitor the implementation of policies related to the management of significant risks;
- Approve adequate methodologies and models for risk assessment and exposure limitation.

The RC updates the SB on the adequacy of the risk management structure and reports key risks. Any significant matters of concern are escalated either to the SB or to the Eurobank Ergasias S.A.'s Group Risk Committee.

Acknowledging the fact that Risk is embedded in every business activity undertaken, the organisational governance stems from the Supervisory Board through the Risk Committee, Management Board and Senior Management.

A robust risk management framework provides the cornerstone for implementing the Bank's risk strategy and achieving business goals. The Bank's approach is to provide direction on: understanding the material risks to achieving Bank's strategy; establishing risk appetite; and communicating the risk management framework. The process is then broken down into five steps. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps	Activity
Identify	• Establish the policies and processes for identifying and understanding business risks.
Assess	• Establish and implement measurement and reporting standards and methodologies.
Control	• Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. • Monitor the operation of the controls and adherence to risk direction and limits. • Provide early warning of control or appetite breaches.
Report	• Interpret and report on risk exposures, concentrations and risk-taking outcomes. • Communicate with external parties.
Manage and Challenge	• Review and challenge all aspects of the Group's risk profile. • Assess new risk-return opportunities. • Advise on optimising the Group's risk profile. • Review and challenge risk management practices.

The above processes are embedded in each of the risk types, supported by the appropriate infrastructure and staffing and are described in detail in the following sections.

Principle 1: The Management Board and Supervisory Board are responsible for approving and periodically reviewing the Risk strategy and Bank's risk policies.

Principle 2: Senior Management is responsible for implementation of the risk strategy approved by the Management Board and for developing policies and procedures for identifying, measuring, monitoring and controlling risks. Such policies and procedures address the risks in all Bank's activities, at both individual and portfolio level.

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

Principle 3: The Bank has sound processes and procedures for approving new loans and transactions, as well as amendments, renewal and re-financing of existing ones.

Principle 4: All exposures are monitored carefully and appropriate measures are taken to control and mitigate the risks.

Principle 5: The Bank has in place systems, processes and procedures for monitoring the performance of individual exposures, including computation and adequacy of provisions and reserves.

Principle 6: Information systems and analytical techniques are used to assist management in assessing and monitoring all significant risks as well as portfolio composition. The Bank uses internal models for credit risk assessment. For Retail portfolio application and behavioral scorecards are in place. For Corporate customer the Bank is using rating systems depending on the economic activity of the customers. The risk models and rating systems are consistent with the nature, size and complexity of a bank's activities.

Principle 7: The Bank takes into account potential future changes in the macroeconomic environment when assessing individual loans and loan portfolios. The Bank is assessing its loan exposures and portfolios under stressful macroeconomic conditions.

Principle 8: The Bank has implemented process for independent, ongoing risk review and communicates risk figures to the Senior Management, Management Board and Risk Committee.

Principle 9: The Bank promotes an open risk culture to support trust and confidence.

Principle 10: The management and all employees feel committed to the Bank's risk policy principles and make their day-to-day decisions according to these guidelines.

Principle 11: The Bank's risk management is organized in a way to prevent conflicts of interests among employees and organizational units.

6. Information under Article 10, paragraph 1, letter "c", "d", "e", "f" and "g" of the Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 on the proposals for takeover.

6.1. c) The Bank has not been involved in any significant direct and indirect shareholdings (including indirect shareholdings through pyramid structures and cross-shareholdings) within the meaning of Article 85 of Directive 2001/34 /EC.

6.2. d) The Bank has not registered any holders of any securities with special control rights.

6.3. e) No restrictions have been implemented or exercised on the rights to vote, such as restrictions on the rights to vote of holders of a certain percentage or number of votes, deadlines for exercising the rights aloud or systems through which through the co-operation with the company the financial rights attached to the securities are separated of the possession of the securities. All of the Bank's capital shares[1] are ordinary with a nominal value of BGN 1.00 (one) each, giving voting right, dividend right and liquidation quota proportionate to the nominal value of shares.

6.4. f) The main AoA, namely Statute of the Bank regulates the appointment and replacement of Boards members. It incorporates the main provisions and principals of the applicable commercial law. The document is publically available on the account of the Bank in the Commercial Registry to the Registry Agency at the Ministry of Justice. The responsibilities that rest with the MB and SB members are given in Statute of the Bank and detailed in the ToR of the relevant Board. It also contains provisions governing the fundamental powers and manner of interaction between the Boards in the decision making process.

6.5. g) The provisions providing the competences of buy-back of shares are implemented in Art.11of the Bank's Statute.

[1] Information regarding the Share Capital Structure is included in the relevant section of the Annual Activity Report.

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

Income statement

	Notes	Year ended 31 December	
		2016	**2015**
Interest and similar income	1	305,241	303,716
Interest and similar charges	1	(31,726)	(67,357)
Net interest income		**273,515**	**236,359**
Fee and commission income	2	84,244	72,788
Fee and commission expense	2	(14,149)	(12,648)
Net fee and commission income		**70,095**	**60,140**
Dividend income		663	407
Other operating income	3	11,486	445
Net trading (expense)/ income	4	(127)	31
Gains less losses from trading securities	12	863	(112)
Gains less losses and impairment of securities available for sale	14	10,942	647
Repossessed collateral impairment	W.1.6.	(754)	(334)
Other operating expenses	5	(147,327)	(112,384)
Deposit Insurance Fund expense		(15,572)	(25,063)
Impairment charge for credit losses	7	(69,755)	(66,601)
Profit before income tax		**134,029**	**93,535**
Income tax expense	8	(14,459)	(9,435)
Profit for the year		**119,570**	**84,100**

The Financial statements were authorized by the management on 29 March 2017.

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

30 March 2017

The following notes set out on pages 37 to 111 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			
			2016		2015
Profit for the year			***119,570***		***84,100***
Items that are or may be reclassified subsequently to profit or loss:			***6,158***		***13,093***
Available for sale securities					
-net changes in fair value, net of tax	9	9,939		13,317	
-transfer of (profit) to net profit on sale upon disposal or impairment	9	(3,781)		(224)	
Items that will not be reclassified to profit or loss:			***503***		***(507)***
Revaluation of property, plant and equipment, net of tax		(78)		(426)	
Remeasurements of post-employment benefit obligations, net of tax		581		(81)	
Other comprehensive income for the year	**9**		***6,661***		***12,586***
Total comprehensive income for the year			**126,231**		**96,686**

The Financial statements were authorized by the management on 29 March 2017.

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

30 March 2017

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

Balance sheet

	Notes	As at 31 December 2016	2015
Assets			
Cash and balances with the Central Bank	10	720,423	1,087,898
Loans and advances to banks	11	1,166,309	109,616
Financial assets held for trading	12	2,438	11,376
Loans and advances to customers	13	4,214,400	3,895,818
Investment securities	14	608,051	550,440
Derivative financial instruments	20	586	2,444
Investment property	15	678	843
Property, plant and equipment	16	41,000	40,104
Intangible assets	17	39,542	34,548
Other assets	18	24,835	19,575
Total assets		**6,818,262**	**5,752,662**
Liabilities			
Deposits from banks	19	21,171	19,854
Derivative financial instruments	20	6,693	3,289
Due to customers	21	5,524,333	4,604,805
Debt issued and other borrowed funds	22	78,959	160,944
Deferred income tax liabilities	23	2,243	2,710
Current income tax payable		2,172	1,081
Provisions for other liabilities and charges	24	10,483	5,220
Retirement benefit and other obligations	25	3,886	4,064
Other liabilities	26	20,337	36,511
Total liabilities		**5,670,277**	**4,838,478**
Shareholders' equity			
Share capital	27	560,323	452,753
Statutory reserves		282,521	282,521
Retained earnings and other reserves, net		305,141	178,910
Total shareholders' equity		**1,147,985**	**914,184**
Total shareholders' equity and liabilities		**6,818,262**	**5,752,662**

The Financial statements were authorized by the management on 29 March 2017.

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
30 March 2017

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

The following notes set out on pages 37 to 111 form an integral part of these financial statements

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

	Share capital	Property revaluation reserve	Available-for-sale investments revaluation reserve	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2015	**452,753**	**2,231**	**33**	**282,521**	**79,960**	**817,498**
Net gain recognised directly in OCI	-	-	13,093	-	-	**13,093**
Revaluation of property, plant and equipment	-	(426)	-	-	-	**(426)**
Remeasurement on post-employment benefit obligations	-	-	-	-	(81)	(81)
Other comprehensive income for the year	**-**	**(426)**	**13,093**	**-**	**(81)**	**12,586**
Profit for the year	-	-	-	-	84,100	**84,100**
Total comprehensive income for the year 2015	**-**	**(426)**	**13,093**	**-**	**84,019**	**96,686**
Transfer to retained earnings	-	(7)	-	-	7	**-**
Balance at 31 December 2015	**452,753**	**1,798**	**13,126**	**282,521**	**163,986**	**914,184**

(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	Statutory Reserves	Retained earnings and other reserves	Total
Balance at 1 January 2016	**452,753**	**1,798**	**13,126**	**282,521**	**163,986**	**914,184**
Net gain recognised directly in OCI	-	-	6,158	-	-	**6,158**
Revaluation of property, plant and equipment	-	(78)	-	-	-	**(78)**
Remeasurement on post-employment benefit obligations	-	-	-	-	581	**581**
Other comprehensive income for the year	**-**	**(78)**	**6,158**	**-**	**581**	**6,661**
Profit for the year	-	-	-	-	119,570	**119,570**
Total comprehensive income for the year 2016	**-**	**(78)**	**6,158**	**-**	**120,151**	**126,231**
Issue of share capital (Note 27)	107,570					**107,570**
Transfer to retained earnings	-	(8)	-	-	8	-
Balance at 31 December 2016	**560,323**	**1,712**	**19,284**	**282,521**	**284,145**	**1,147,985**

The Financial statements were authorized by the management on 29 March 2017.

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

30 March 2017

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

Statement of cash flows

	Year ended 31 December	
	2016	**2015**
Cash flow from operating activities		
Interest received	303,842	312,424
Interest paid	(34,984)	(88,774)
Dividends received	663	407
Fees and commission received	84,582	72,402
Fees and commission paid	(13,255)	(11,725)
Amounts paid to and on behalf of employees	(65,842)	(53,668)
Net trading and other income received	19,815	2,910
Other operating expenses paid	(82,005)	(76,047)
Tax paid	(13,495)	(9,388)
Cash from operating activities before changes in operating assets and liabilities	**199,321**	**148,541**
Changes in operating assets and liabilities		
Net (increase)/decrease in reserve with the Central Bank	(46,054)	15,787
Net decrease in trading securities	8,858	47,247
Net decrease/(increase) in loans and advances to customers	125,776	(136,721)
Net (increase) in other assets	(1,674)	(907)
Net decrease/(increase) in derivatives instruments	1,269	(389)
Net increase in due to other banks	1,316	1,026
Net increase/(decrease) in amounts due to customers	370,184	(448,890)
Net (decrease)/increase in other liabilities	(23,855)	12,754
Net cash flow from/(used in) operating activities	**635,141**	**(361,552)**

(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	**2016**	**2015**
Proceeds from acquisition of subsidiary, net of cash acquired (note 32)	136,657	-
Purchase of property, plant and equipment and intangible assets (Notes 16, 17)	(16,983)	(8,824)
Purchase of investment securities (Note 14)	(67,394)	(663,639)
Proceeds from disposal of property and equipment	393	41
Proceeds from disposal of investment securities (Note 14)	36,841	252,656
Net cash flow from/(used in) investing activities	**89,514**	**(419,766)**
Cash flow from financing activities		
Long-term financing received	32,271	20,000
Long-term debt repaid	(113,934)	(39,327)
Net cash used in financing activities	**(81,663)**	**(19,327)**
Effect of exchange rate changes on cash and cash equivalents	173	8
Net change in cash and cash equivalents	**643,165**	**(800,637)**
Cash and cash equivalents at beginning of year	**994,604**	**1,795,241**
Cash and cash equivalents at end of year (Note 28)	**1,637,769**	**994,604**

The Financial statements were authorized by the management on 29 March 2017.

Petia Dimitrova
Chairperson of the Management Board and Chief Executive Officer

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

ЮРОБАНК БЪЛГАРИЯ АД
Postbank
ЦУ
Град София

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

Milka Damianova
Registered Auditor

Stefan Weiblen
PricewaterhouseCoopers Audit OOD

ОДИТОРСКО ДРУЖЕСТВО
София
Рег. № 085
ПРАЙСУОТЪРХАУСКУПЪРС ОДИТ ООД

30 March 2017

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

Notes to the financial statements

General information

Eurobank Bulgaria AD (the Bank) was incorporated and is domiciled in Bulgaria. The Bank is a joint stock company limited by shares and was set up in accordance with Bulgarian regulations. The Bank has operated under a full banking licence issued by the Bulgarian National Bank.

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 174 network locations and 8 business centres (2015: 144 network locations and 7 business centres). The registered office address is: 260 Okolovrasten pat, 1766 Sofia, Bulgaria. The Bank employs 2,640 people (2015: 2,207).

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 Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) as adopted by the European Union (EU). IFRSs as adopted by the EU is the commonly accepted name of the general purpose framework – the basis of accounting equivalent to the framework definition introduced by § 1, p. 8 of the Additional Provisions of the Accountancy Act "International Accounting Standards" (IASs).

Position of Eurobank Group, Greece

In June 2016, Greece, after the completion of a number of key prior actions, has successfully concluded the first review of the Third Economic Adjustment Program (TEAP), which permitted the disbursement of € 10.3 bn from the second instalment of the European Stability Mechanism (ESM) loan that allowed the country to cover its debt servicing needs and clear a part of the state's arrears to the private sector. In accordance with the agreement with the European partners, the authorities are committed to preserving sufficient liquidity in the banking system, as long as Greece meets its obligations under the ESM program.

The next key milestone for Greece is the timely and successful completion of the second review of the TEAP, currently in progress, which would help reinstating depositors' confidence and thus accelerate the return of deposits, it would facilitate the faster relaxation of capital controls and would allow for the participation in ECB's Quantitative Easing (QE) program, conditional on the decisions of the Institutions regarding the plan for the implementation of the medium-term debt relief measures. Moreover, the reduction of the short term uncertainty along with, the decisive implementation of the reforms agreed in the context of the ESM program and the mobilization of European Union (EU) funding to support domestic investment and job creation, would facilitate the restoration of confidence in the prospects of the Greek economy and the further stabilization of the domestic economic environment, which are necessary conditions for the return of the country to a sustainable growth path.

The main risks and uncertainties stem from the current macroeconomic environment in Greece and the further delays in the conclusion of the second review of the TEAP. In particular risks include (a) possible delays in the implementation of the reforms' agenda in order to meet the next targets and milestones of the TEAP, which in turn would lead to the delayed disbursement of the third instalment of the ESM loan of € 6.1 bn, (b) the impact on the level of economic activity from the uncertainty associated with the timing of the conclusion of the second review of the TEAP, (c) the impact on the level of economic activity from additional fiscal measures agreed under the first review of the TEAP, (d) the timing of a full lift of restrictions in the free movement of capital and the respective impact on the level of economic activity,

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Position of Eurobank Group, Greece (continued)

(e) the possible acceleration of the deposits outflows observed in the first two months of 2017, and/or possible delays in the effective management of non-performing loans as a result of the continuing macroeconomic uncertainty, (f) a possible deterioration of the refugee crisis and its impact on the domestic economy and (g) the geopolitical conditions in the broader region and the external shocks from a slowdown in the global economy.

The Group, following the successful completion of its recapitalization in November 2015, exclusively from private sources, is focused on the organic strengthening of its capital position by the further expansion of pre-provision income while maintaining its robust risk management practices, and by proceeding to additional initiatives associated with the restructuring, transformation or optimization of operations, in Greece and abroad, that will generate or release further capital and/or reduce risk weighted assets. One of the key areas of focus is the active management of non-performing exposures at an accelerated pace, with the aim to substantially reduce their stock in accordance with the Eurobank Ergasias S.A. operational targets and taking advantage of the Group's internal infrastructure, the external partnerships and the important legislative changes that have taken or are expected to take place. The Group's Common Equity Tier 1 (CET1) ratio stood at 17.4% at the end of September 2016 and the net profit attributable to shareholders amounted to € 192 million for the period ended 30 September 2016.

Position of the Bank

As at 31 December 2016, 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 an exposure to the Parent in Greece, which is within the regulatory acceptable threshold for such exposures and takes into account 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

In November 2015, following the completion of Eurobank Ergasias share capital increase, fully covered by investors, institutional and others the percentage of the Bank's ordinary shares with voting rights held by the HFSF decreased from 35.41% to 2.38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over Eurobank Ergasias. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Bank's General Assembly only for decisions concerning the amendment of the Bank's Articles of Association, including the increase or decrease of the Bank's capital or the granting of a corresponding authorization to the Bank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Bank, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, Eurobank Ergasias has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014, which regulates, among others, (a) the Bank's corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of the Bank's Non-Performing Loans (NPL) management framework and of the Bank's performance on NPL resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Bank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Bank's Group Risk and Capital Strategy and for the Bank's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in the Bank's Board.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Amendments to standards and new interpretations adopted by the Bank
The following amendments to standards and new interpretations, as issued by the International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IC) and endorsed by the European Union (EU), apply from 1 January 2016:

IAS 1, Amendment - Disclosure initiative
The amendment clarifies that an entity need not provide in the financial statements, including the notes, a specific disclosure required by an IFRS if the information resulting from that disclosure is not material and also clarifies that additional disclosures may be necessary if the information required by IFRSs is not sufficient for an understanding of the impact of particular transactions and events on the entity's financial position and performance.
The line items listed in IAS 1 for the balance sheet and the statement of profit or loss should be disaggregated if this is relevant to an understanding of the entity's financial position and additional guidance on the use of subtotals is provided. In the statement of comprehensive income the share of the other comprehensive income of equity –accounted associates and joint ventures should be presented in aggregate as a single line item, classified between those items that will or will not be subsequently reclassified to profit or loss and when determining a systematic approach to presenting notes, the entity should consider the understandability and comparability of its financial statements.

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

IAS 16 and IAS 38, Amendments - Clarification of Acceptable Methods of Depreciation and Amortization
The amendments clarify that the use of revenue-based methods to calculate the depreciation for property plant and equipment is not appropriate and they also clarify 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 had no impact on the Bank's financial statements.

IAS 19, Amendment-Defined Benefit Plans: Employee Contributions
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 service cost in the year in which the related employee service is delivered, instead of attributing them to periods of employee service. Contributions which vary with the length of employee service, must be spread over the service period using the plan's contribution formula or on a straight line basis, consistent with the attribution method applied to the gross benefit in accordance with paragraph 70 of IAS 19.

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

IAS 27, Amendment-Equity Method in Separate Financial Statements
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 which are required by IAS 28 Investments in Associates and Joint Ventures to be accounted for using the equity method.

The adoption of the amendment 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 11, Amendment – Accounting for Acquisitions of Interests in Joint Operations

This amendment requires an investor to apply the principles of business combinations accounting in IFRS 3 'Business Combinations' and other IFRSs, which do not conflict with IFRS 11, when it acquires an interest in a joint operation that constitutes a 'business' as defined in IFRS 3. The amendments, which also apply when an existing business is contributed to the joint operation on its formation, require the disclosure of information specified in IFRS 3 and other IFRSs for business combinations. The amendments are applicable to both the acquisition of the initial interest in a joint operation and the acquisition of additional interest in the same joint operation while the joint operator retains joint control. However, a previously held interest is not remeasured when the acquisition of an additional interest in the same joint operation results in retaining joint control.

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

IFRS 10, IFRS 12 and IAS 28, Amendments - Investment Entities: Applying the Consolidation Exception

The amendments clarify the application of the consolidation exception for the subsidiaries of investment entities.

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

Annual Improvements to IFRSs 2010-2012 Cycle

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

- IFRS 2 'Share – based Payment': The terms 'performance condition' and 'service condition' are separately defined;
- IFRS 3 'Business Combinations': It is clarified that contingent consideration in a business acquisition that is not classified as equity, whether or not it falls within the scope of IAS 39 (or IFRS 9 once adopted), is subsequently measured at fair value at each reporting date, with changes in fair value recognized in profit or loss;
- IFRS 8 'Operating Segment': Disclosure of the judgments made by management in aggregating operating segments is required, including a description of the segments aggregated and the economic indicators assessed in determining that the aggregated segments share similar economic characteristics. Furthermore, a reconciliation of segment assets to the entity's total assets is required if the reconciliation is reported to the chief operating decision maker;
- IFRS 13 'Fair Value Measurement': It is clarified that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial;
- IAS 16 'Property, Plant and Equipment': It is clarified how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model;
- IAS 24 'Related Party Disclosures': It is clarified that an entity that provides key management personnel services to the reporting entity or to its parent ('the management entity') is a related party to the reporting entity and the amounts charged to it for services provided should be disclosed; and
- IAS 38 'Intangible Assets': It is clarified how the gross carrying amount and the accumulated amortization are treated where an entity uses the revaluation model;

The adoption of the amendments 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)

Annual Improvements to IFRSs 2012-2014 Cycle
The amendments introduce key changes to four IFRSs following the publication of the results of the IASB's 2012-14 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- IFRS 5 'Non-current assets held for sale and discontinued operations': It is clarified 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. Therefore the asset (or disposal group) does not need to be reinstated in the financial statements, as if it had never been classified as 'held for sale' or 'held for distribution', simply because the manner of disposal has changed.
- IFRS 7 'Financial instruments: Specific guidance is added to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement. It is also clarified that the additional disclosure required by the amendments to IFRS 7, 'Disclosure – Offsetting financial assets and financial liabilities' is not specifically required for all interim periods, unless required by IAS 34 'Interim financial reporting'.
- IAS 19 'Employee benefits': 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.
- IAS 34 'Interim financial reporting': It is clarified that the reference in the standard to 'information disclosed elsewhere in the interim financial report' means some other statement (such as management commentary or risk report) that is available to users of the financial statements at the same time as the interim financial statements, requiring a cross - reference from the interim financial statements to the location of that information.

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

New standards, amendments to standards and interpretations not yet adopted by the Bank

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

IAS 7, Amendment – Disclosure Initiative (effective 1 January 2017, not yet endorsed by EU)
The amendment requires disclosure of information enabling users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes. The disclosure requirements also apply to changes in financial assets, such as assets that hedge liabilities arising from financing activities, if cash flows from those financial assets were or future cash flows will be, included in cash flows from financing activities.

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

IAS 12, Amendment – Recognition of Deferred Tax Assets for Unrealized Losses (effective 1 January 2017, not yet endorsed by EU)

The amendment clarifies that (a) unrealized losses on debt instruments measured at fair value in the financial statements and at cost for tax purposes may give rise to a deductible temporary difference irrespective of whether the entity expects to recover the carrying amount of the debt instrument by sale or use (b) estimates for future taxable profits exclude tax deductions resulting from the reversal of those deductible temporary differences (c) the estimate of probable future

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

taxable profits may include the recovery of an asset for more than its carrying amount, if there is sufficient evidence that it is probable that this will be realized by the entity, and (d) a deferred tax asset is assessed in combination with all of the other deferred tax assets where the tax law does not restrict the sources of taxable profits against which the entity may make deductions on the reversal of that deductible temporary differences may be reversed. Where restrictions apply, deferred tax assets are assessed in combination only with other deferred tax assets of the same type.

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

IAS 40, Amendment – Transfers of Investment Property (effective 1 January 2018, not yet endorsed by EU)

The amendment clarifies that a transfer of property, including property under construction or development, into or out of investment property should be made only when there has been a change in use of the property. Such a change in use occurs when the property meets, or ceases to meet, the definition of investment property and should be supported by evidence.

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

IFRS 2, Amendment – Classification and Measurement of Share-based Payment Transactions (effective 1 January 2018, not yet endorsed by EU)

The amendment addresses a) the measurement of cash-settled share-based payments, b) the accounting for modifications of a share-based payment from cash-settled to equity-settled and c) the classification of share-based payments settled net of tax withholdings.

Specifically, the amendment clarifies that a cash-settled share-based payment is measured using the same approach as for equity-settled share-based payments It also clarifies that the liability of cash- settled share - based payment modified to equity-settled one is derecognized and the equity-settled share-based payment is recognized at the modification date fair value of the equity instrument grantedand any difference is recognized in profit or loss immediately.

Furthermore, a share–based payment net by withholding tax on the employee's behalf (a net settlement feature) is classified as equity settled in its entirety, provided it would have been classified as equity-settled had it not included the net settlement feature.

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

IFRS 4, Amendment – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective 1 January 2018, not yet endorsed by EU)

The amendment addresses the accounting consequences of the different effective dates of IFRS 9 'Financial Instruments' and the forthcoming new insurance contracts Standard. The amendment introduces two options for entities that issue insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance, allowing them to continue to apply IAS 39 'Financial Instruments: Recognition and Measurement' while they defer the application of IFRS 9 until 1 January 2021 at the latest.

The overlay approach is an option for entities that adopt IFRS 9 and issue insurance contracts, to adjust profit or loss for eligible financial assets, effectively resulting in IAS 39 accounting for those designated financial assets. This approach can be used provided that the entity applies IFRS 9 in conjunction with IFRS 4 and classifies financial assets as fair value through profit or loss in accordance with IFRS 9, when those assets were previously classified at amortized cost or as available-for-sale in accordance with IAS 39.

The amendment is not relevant to the Bank's activities.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

IFRS 9, Financial Instruments (effective 1 January 2018)

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

Classification and measurement

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

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

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

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

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

Business model assessment

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

The Banks's approach is to perform the business model assessment consistently with its operating model and the information provided to key management personnel. In making the above assessment the Bank will consider a number of factors including:

- the stated policies and objectives for each portfolio;
- how the performance of each portfolio is evaluated and reported;
- the risks associated with the performance of the business model and how those risks are managed;
- how managers are compensated; and
- past experience on how the cash flows from those portfolios were collected, expectations about future sales activity and how the Group's stated objective for managing the financial assets is achieved.

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

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

Impairment of financial assets
IFRS 9 introduces an expected credit loss ('ECL') model that replaces the incurred loss model in IAS 39. The new requirements eliminate the threshold in IAS 39 that required a credit event to have occurred before credit losses were recognised and will apply to a broader population of financial instruments compared to IAS 39. The measurement of ECL will require the use of complex models and significant judgment about future economic conditions and credit behaviour.
The new impairment model will apply to financial assets that are not measured at FVTPL, including loans, lease receivables, debt securities, financial guarantee contracts and loan commitments issued. No impairment loss will be recognised on equity investments.
The new standard uses a 'three stage approach' that will reflect changes in credit quality since initial recognition. At each reporting date, a loss allowance equal to 12-month ECL will be recognized for debt investment securities that are determined to have a low credit risk at the reporting date, and for all other financial assets for which there is no significant increase in credit risk since initial recognition. 12-month ECL are the portion of ECL that result from default events that are possible within the next 12 months after the reporting date. For financial assets that have experienced a significant increase in credit risk since initial recognition where no specific loss event has been identified, a loss allowance equal to lifetime expected credit losses will be recognised. The loss allowance for purchased or originated credit impaired financial assets will always be measured at an amount equal to lifetime ECL. Financial assets where 12-month ECL are recognised are considered to be in 'stage-1'; financial assets which have experienced a significant increase in credit risk are in 'stage-2' and financial assets that are credit impaired are in 'stage-3'.

The measurement of expected credit losses will be a probability-weighted average amount that will reflect the time value of money. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions should be considered. The new impairment model is expected to result in a higher loss allowance for the Bank compared to IAS 39.

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

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

Notes to the financial statements (continued)

A. Basis of preparation (continued)

Transition

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

Moreover, the following assessments will have to be made on the basis of facts and circumstances that exist at the date of initial application:

- the determination of the business model within which a financial asset is held;
- the designation and revocation of previous designations of certain financial assets and liabilities as measured at FVTPL; and
- the designation of certain investments in equity instruments not held-for-trading as at FVOCI.

IFRS 15, Revenue from Contracts with Customers (effective 1 January 2018) and IFRS 15 Amendments (effective 1 January 2018, not yet endorsed by EU)

IFRS 15 establishes a single, comprehensive revenue recognition model for determining when and how much revenue to recognize and replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs.

IFRS 15 applies to all contracts with customers, except those in the scope of other standards such as:

• Financial instruments and other contractual rights or obligations within the scope of IFRS 9 Financial Instruments or IAS 39 Financial Instruments: Recognition and Measurement, IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures;

• Lease contracts within the scope of IAS 17 Leases (or IFRS 16 Leases);

• Insurance contracts within the scope of IFRS 4 Insurance Contracts

Therefore, interest and fee income integral to financial instruments will continue to fall outside the scope of IFRS 15.

IFRS 15 specifies that revenue should be recognized at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services. It introduces the concept of recognizing revenue for performance obligations as they are satisfied and the control of a good or service (ie the ability to direct the use of and obtain the benefits from them), is obtained by the customer.

Extensive disclosures will be required in relation to revenue recognized and expected from existing contracts.

IFRS 15 was amended in April 2016 to provide several clarifications, including the identification of the performance obligations within a contract.

The Bank, is currently assessing the effect of IFRS 15, however the adoption of the standard is not expected to have a significant 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 16, Leases (effective 1 January 2019, not yet endorsed by EU)

IFRS 16, which supersedes IAS 17 Leases and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17. The new standard provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid.

Accordingly, the typical straight line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short term leases and leases of low value assets. Additionally, the accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

The Bank is currently assessing the impact of IFRS 16 on its financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle (effective 1 January 2017 and 1 January 2018, not yet endorsed by EU)

The amendments introduce key changes to two IFRS following the publication of the results of the IASB's 2014-16 cycle of the annual improvements project. The topics addressed by these amendments are set out below:

- IFRS 12 'Disclosure of Interests in Other Entities': It is clarified that the disclosure requirements in IFRS 12 apply to an entity's interest in a subsidiary, a joint venture or an associate classified as held for sale except for the requirement for summarized financial information. The amendment applies for annual periods beginning on or after 1 January 2017.
- IAS 28 'Investments in Associates and Joint Ventures': It is clarified that venture capital organizations, mutual funds, unit trusts and similar entities are allowed to elect measuring their investments in associates or joint ventures at fair value through profit or loss. The amendment applies for annual periods beginning on or after 1 January 2018.

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

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

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

The adoption of the interpretation 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)

The financial statements have been prepared under historical cost convention as modified by:

- the revaluation of available-for-sale financial assets and certain classes of property, plant and equipment and investment property - measured at fair value through other comprehensive income and of financial assets and liabilities (including derivative instruments) measured at fair value through profit and loss;
- repossessed properties – valued at the lower of cost and net realizable value.

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

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

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 Bulgarian Leva (BGN), rounded to the nearest thousand, unless otherwise indicated. Bulgarian Lev is the Bank's functional and presentation currency.

Transactions and balances

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending onthe classification of the non-monetary item.

At 31 December 2016, monetary assets and liabilities are translated at the reference Central Bank exchange rate – BGN 1 for EUR 0.5113 (2015: BGN 1 for EUR 0.5113) and BGN 1 for USD 0.53895 (2015: BGN 1 for USD 0.5586).

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

Notes to the financial statements (continued)

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

Classification

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

(a) Financial assets held for trading

A financial asset is classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short 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 hedging instruments.

(b) 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; or (b) those that the Bank upon initial recognition designates as available-for-sale.

Debt instruments classified in this category are presented in the financial statements in “Investment Securities” under “Debt Securities Lending portfolio”.

(c) 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. 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 If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category is tainted and reclassified as available for sale.

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

Notes to the financial statements (continued)

E. Financial assets (continued)

(d) 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.

Recognition and derecognition

Purchases and sales of financial assets are recognised at settlement date – which is the date that the asset is delivered to or by the Bank. Loans originated by the Bank are recognised when cash is advanced to the borrowers.

Financial assets are initially recognized at fair value plus transaction costs for all financial assets not classified as held for trading. 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.

Measurement

Loans and receivables and held-to-maturity investments are subsequently carried at amortized cost using the effective interest method, less any provision for impairment.

Available-for-sale financial assets and financial assets held for trading are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the financial assets held for trading category are included in the income statement as net trading income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized as profit or loss in the income statement.

Dividends on equity instruments are recognized in the income statement when the Bank's right to receive payment is established.

Interest income from financial assets held for trading is included in the net interest income. Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised as interest income in the income statement.

Fair value measurement of financial instruments

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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note W. 2.4.2).

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

Notes to the financial statements (continued)
F. 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 offinancial 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.

Impairment assessment

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and collectively for financial assets that are not individually significant. If there is no objective evidence of impairment for a financial asset, the Bank includes it in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. In determining whether a loan is individually significant for the purposes of assessing impairment, the Bank considers a number of factors, including the importance of the individual loan relationship and how it is managed, the size of the loan, and the product line. Consequently, loans to wholesale customers and financial institutions, as well as investment securities are generally considered as individually significant. Retail lending portfolios are generally assessed for impairment on a collective basis as they consist of large homogenous portfolios; exposures that are managed on an individual basis are assessed individually for impairment.

The Bank assesses at each reporting date whether there is objective evidence of impairment.

If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account for loans and advances or directly for all other financial assets, and the amount of the loss is recognized in the income statement. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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.

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

Notes to the financial statements (continued)

F. Impairment of financial assets (continued)

For collective impairment purposes, the 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 borrowers' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows of a group of financial assets that is collectively assessed 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.

Estimates of changes in the future cash flows for a group of financial 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). Historical loss experience is adjusted on the basis of current observable data to reflect the effects of 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 exist currently. The methodology and assumptions used for estimating the future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Reversals of impairment

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

Write-off of loans and advances

A loan and the associated impairment allowance are written off when there is no realistic prospect of recovery. The Bank considers all relevant information including the occurrence of a significant change in the borrower's financial position to such extent that the borrower can no longer pay his obligation.
The timing of write-off is mainly dependent on whether there are any underlying collaterals, their foreclosure processes, as well as the Bank's estimates of the collectible amounts. Especially for collateralized exposures, the timing of write-off maybe delayed due to various legal impediments. The number of days past due is considered by the Bank as an indicator, however it is not regarded as a determining factor.
Unpaid debt continues to be subject to enforcement activity even after it is written-off.

Loan modifications

Modifications of loans' contractual terms may arise due to various factors, such as changes in market conditions, customer retention and other factors, as well as potential deterioration of the borrower's financial condition. Forbearance occurs in the cases where the contractual payment terms of a loan have been modified due to the deterioration of the borrower's financial position and the Bank has granted a concession by providing more favorable terms and conditions that it would not otherwise consider had the borrower not been in financial difficulties. Other renegotiations, more of a business nature, are not considered as forbearance measures.
Forbearance measures usually do not lead to de-recognition unless changes to the original contractual terms/currency result in a substantially different loan. Modifications that may not result in de-recognition include:

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

Notes to the financial statements (continued)

F. Impairment of financial assets (continued)

- reduced or interest-only payments;
- payment holidays, grace period;
- extended payment periods under which the original term of the loan is extended;
- capitalization of arrears whereby arrears are added to the principal balance; and reduction in interest rates.

If the assessment of the forborne loan's modified terms do not result in de-recognition, the loan is assessed for impairment as the forbearance measures represent a concession that the Bank would not otherwise consider. The impairment loss is measured in accordance with the Bank's impairment policy.

(b) Available-for-sale assets

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

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement.

Impairment losses recognized in the income statement on equity investments 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 recognized in profit or loss, the impairment loss is reversed through the income statement.

G. Sale and repurchase agreements and securities lending

(a) Sale and repurchase agreements

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. Securities purchased 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 in case of repos and the purchase and resale price in case of reverse repos is recognised as interest and accrued over the life of repo or reverse repo agreements using the effective interest rate method.

(b) Securities lending

Securities lent to counterparties are retained in the financial statements. Securities borrowed are not recognized in the financial statements, unless these are sold to third parties, in which case the obligation to return them is recorded at fair value as a trading liability.

H. 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.

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

Notes to the financial statements (continued)

H. Derivative financial instruments and hedge accounting (continued)

Derivative financial instruments including currency and interest rate swaps, currency forwards, forward rate agreements, options and futures are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently are re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Usually the net investment is zero (i.e. the net fair value of the receivables and payables is zero). Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The changes in the fair value of derivatives are included in the income statement.

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.

In addition, the Bank uses other derivatives, not designated in a qualifying hedge relationship, to manage its exposure primarily to interest rate and foreign currency risks. Non qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied. The said derivative instruments are classified along with those held for trading purposes.

The method of recognizing the resulting fair value gain or loss depends on whether the derivatives are designated and qualify as hedging instruments, and if so, the nature of the item being hedged.

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.

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 the 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.

Derivatives that are not designated as hedging instruments

Changes in the fair value of derivative financial instruments that are not designated as a hedging instrument or do not qualify for hedge accounting are recognized in the income statement.

I. Property, plant and equipment (PPE)

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

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

Notes to the financial statements (continued)

I. Property, plant and equipment (PPE) (continued)

Subsequent expenditure is recognized in the asset's carrying amount only when it is probable that future economic benefits will flow to the Bank and the cost of the asset can be measured reliably. All other repair and maintenance costs are recognized in the income statement as incurred.

After initial recognition the Bank measures the land and building at fair value. All other property, plant and equipment is recognised at historical cost less accumulated depreciation.

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 at least once in 5 years. Periodically a review for impairment (valuation of all properties) is performed. The last valuation of Bank properties was done in December 2013.
At the date of revaluation, the net amount of the asset is restated to its revalued amount by adjusting its accumulated depreciation, in cases where the accumulated depreciation balance is less than the upward revaluation effect, the gross carrying amount is adjusted with the difference.

If an asset’s carrying amount is increased as a result of a revaluation, the increase, net of tax, is recognised in other comprehensive income and accumulated as Revaluations surplus in shareholder’s equity. 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 write down the cost of PPE 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 PPE is included in profit or loss when the item is derecognised. The gain or loss from derecognition of an item of PPE is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

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

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

Notes to the financial statements (continued)

J. Intangible assets

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

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

The costs recognised (Note 17) include the employment costs of those directly involved in creating the asset, and may include some other costs (costs of materials and services used or consumed in generating the asset, legal fees, registration fees, etc)
Intangible assets are amortized using the straight-line method over their useful lives (between 4 and 10 years as stated above).

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

K. 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.

L. Repossessed properties

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in 'Other Assets'. Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale.
In cases where the Bank makes use of repossessed properties as part of its operations, they may be reclassified to own occupied or investment properties, as appropriate.
Any gains or losses on liquidation are included in the income statement.

M. Borrowings

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.

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

Notes to the financial statements (continued)

N. 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.

O. Operating leases

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

P. 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.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The principal temporary differences arise from depreciation of property, plant and equipment, revaluation reserve of financial instruments, provisions for court cases 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.

Deferred tax related to changes in fair values of available-for-sale investments which are recognized to other comprehensive income is also recognized to other comprehensive income, and is subsequently recognized in the income statement together with the deferred gain or loss.

The deferred tax asset on income tax losses carried forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Q. 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

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

Notes to the financial statements (continued)

Q. Employee benefits (continued)

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.

R. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.
The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.
Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

S. 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 years. As per Bank legislation, funds accumulated in the Statutory Reserve account cannot be distributed as dividends without the consent of the Local Bank Regulator.
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, 2016 including.

T. 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.

U. 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 to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the management's judgment. Any increase in the liability relating to guarantees is taken to the income statement.

V. Comparatives

The Bank has not performed any reclassifications on balance sheet and income statement positions for 2015.

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

Notes to the financial statements (continued)

W. 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 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. It is currently complemented, by the Risk function. In addition, internal audit is responsible for the independent review of risk management and the control environment. 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 Management 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.

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 Bank supports its borrowers by offering various restructuring and renegotiation solutions, which improve their ability to repay the amounts due. 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.

The main Bank's financial risk management objectives and policies are set out in Annual Activity report on p. 6-8.

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

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

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.

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.

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

Notes to the financial statements (continued)
W. Financial risk management (continued)
1. Credit risk (continued)

1.1. Credit risk measurement (continued)

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.
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.

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

Notes to the financial statements (continued)
W. Financial risk management (continued)
1. Credit risk (continued)

1.2. Risk limit control and mitigation policies (continued)

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any 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. For credit risk mitigation with regard to derivative deals with main bank counterparties, the Bank uses ISDA with CSA agreements. Further details of the Bank's derivative instruments are provided in Note 20.
Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities.

(c) Credit related commitments
Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make the payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized with cash deposits or other collateral pledged to the Bank, and accordingly the Bank normally assumes minimal risk. Commitments to extend credit represent unused portions of authorizations to extend credit in the form of the loan. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. The Bank monitors the term to maturity of credit commitments because long-term commitments generally have higher level of credit risk than short-term commitments.

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

The table below represents worst case scenario of credit risk exposure to the Bank as at 31 December 2016 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 89% of the total maximum exposure is derived from loans and advances to banks and customers as well as loan commitments (2015: 88%); 9% represents investments in debt securities (2015: 10%).

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

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

	As at 31 December	
	2016	**2015**
Credit risk exposures relating to on-balance sheet assets are as follows:		
Loans and advances to banks	1,166,309	109,616
Loans and advances to customers:		
- Mortgages	1,498,990	1,275,863
- Consumer lending (including credit cards)	615,073	564,710
- Small Business lending	550,890	562,879
- Corporate lending	1,549,447	1,492,366
Trading assets - debt securities	1,535	10,275
Derivative financial instruments	586	2,362
Investment securities- available-for-sale-debt securities	422,133	366,863
Debt Securitiy Lending	176,984	169,400
Other assets	12,515	10,710
Credit risk exposures relating to off-balance sheet items are as follows:		
Guarantees	134,100	55,766
Letters of credit	21,210	29,652
Undrawn Loan commitments	828,368	591,496
Total	**6,978,140**	**5,241,958**

1.4. Loans and advances

Loans and advances are summarized as follows:

	As at 31 December	
Loans and advances to customers	**2016**	**2015**
Neither past due nor impaired	3,351,514	2,990,133
Past due but not impaired	294,619	428,627
Impaired	980,770	988,236
Gross	**4,626,903**	**4,406,996**
Less: allowance for impairment	(412,503)	(511,178)
Net	**4,214,400**	**3,895,818**
Included in gross loans and advances are:		
Past due more than 90 days	709,771	817,621

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

The total impairment provision for loans and advances is BGN 412,503 thousand (2015: BGN 511,178 thousand) of which BGN 190,872 thousand (2015: BGN 204,238 thousand) represents the individually impaired loans provision and the remaining amount of BGN 221,631 thousand (2015: BGN 306,940 thousand) represents the portfolio provision. Movement of the impairment allowance for loans and advances to customers is provided in Note 13. During 2016, the Bank's total net loans and advances increased by 8%. 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 2016 net loans and advances were affected by BGN 4,358 thousand (2015: BGN 17,669 thousand) IMO recoveries received on realized loan collaterals. IMO Property Investments Sofia E.A.D. (IMO) is a related company of the Bank, which is involved in the real estate management business.

(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 2016 can be assessed by reference to the internal standard grading system (see W.1.1.a). The following information is based on that system:

Satisfactory risk	**As at 31 December 2016**	**As at 31 December 2015**
Mortgages	1,111,772	954,574
Corporate Lending	1,346,810	1,235,199
Consumer Lending	541,191	476,702
SBB* Lending	321,022	310,224
Total Satisfactory risk	**3,320,795**	**2,976,699**
Watch list (Corporate Lending)	30,719	13,434

*SBB- Small Business Banking

(b) Loans past due but not impaired

31 December 2016	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	37,547	85,332	40,442	41,768	**205,089**
Past due 30 - 89 days	16,228	47,798	24,904	600	**89,530**
Total	**53,775**	**133,130**	**65,346**	**42,368**	**294,619**

31 December 2015	**Consumer Lending**	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	40,524	85,831	44,998	112,551	**283,904**
Past due 30 - 89 days	22,970	50,820	38,275	14,091	**126,156**
Past due 90 - 179 days	-	18,567	-	-	**18,567**
Total	**63,494**	**155,218**	**83,273**	**126,642**	**428,627**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

(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 W.1.1.

31 December 2016	Consumer lending	Mortgages	SBB lending	Corporate Lending	Total
Past due up to 29 days	11,758	37,800	15,757	-	**65,315**
Past due 30 - 89 days	5,819	25,544	9,455	178	**40,996**
Past due 90 - 179 days	7,321	30,018	2,077	-	**39,416**
Past due less than 1 year	7,828	16,984	1,984	-	**26,796**
Past due over 1 year	20,740	208,396	142,310	-	**371,446**
Collectively assessed for impairment	**53,466**	**318,742**	**171,583**	**178**	**543,969**

31 December 2015	Consumer lending	Mortgages	SBB lending	Corporate Lending	Total
Past due up to 29 days	5,933	25,509	10,999	-	**42,441**
Past due 30 - 89 days	1,584	8,732	4,898	-	**15,214**
Past due 90 - 179 days	8,633	5,332	3,158	-	**17,123**
Past due less than 1 year	9,269	20,969	4,450	-	**34,688**
Past due over 1 year	140,839	161,098	117,115	-	**419,052**
Collectively assessed for impairment	**166,258**	**221,640**	**140,620**	**-**	**528,518**

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

(d) Loans and advances individually impaired

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

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

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

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

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

31 December 2016	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	6,943	-	133,454	**140,397**
Past due 30 - 89 days	-	404	23,888	**24,292**
Past due 90 - 179 days	-	8,498	5,013	**13,511**
Past due less than 1 year	-	5,139	9,604	**14,743**
Past due over 1 year	-	141,104	102,754	**243,858**
Individually impaired loans	**6,943**	**155,145**	**274,713**	**436,801**

31 December 2015	**Mortgages**	**SBB Lending**	**Corporate Lending**	**Total**
Past due up to 29 days	-	-	57,372	**57,372**
Past due 30 - 89 days	-	-	74,155	**74,155**
Past due 90 - 179 days	-	8,917	5,008	**13,925**
Past due less than 1 year	-	10,390	4,504	**14,894**
Past due over 1 year	-	162,867	136,505	**299,372**
Individually impaired loans	**-**	**182,174**	**277,544**	**459,718**

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)

W. Financial risk management (continued)

1. Credit risk (continued)

1.4 Loans and advances (continued)

Information about collateral at 31 December 2016 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Total
Unsecured loans	395,559	599,898	75,817	103,859	**1,175,133**
Loans guaranteed by other banks	65,149	-	1,960	-	**67,109**
Loans guaranteed by other parties, including credit insurance	31,051	-	272	-	**31,323**
Loans collateralised by:					
- residential real estate	60,382	304	165,496	1,374,749	**1,600,931**
- other real estate	842,250	59	286,846	19,912	**1,149,067**
- cash deposits	4,262	6,212	5,492	470	**16,436**
- other assets	150,794	8,600	15,007	-	**174,401**
Total loans and advances to customers	**1,549,447**	**615,073**	**550,890**	**1,498,990**	**4,214,400**

Information about collateral at 31 December 2015 is as follows:

	Corporate loans	Consumer loans	SBB loans	Mortgage loans	Total
Unsecured loans	345,698	551,144	83,306	113,383	**1,093,531**
Loans guaranteed by other banks	116,283	-	2,452	-	**118,735**
Loans guaranteed by other parties, including credit insurance	9,268	1	175	-	**9,444**
Loans collateralised by:					
- residential real estate	65,583	24	165,222	1,152,351	**1,383,180**
- other real estate	748,458	-	294,496	9,689	**1,052,643**
- cash deposits	23,566	5,434	5,381	440	**34,821**
- other assets	183,510	8,107	11,847	-	**203,464**
Total loans and advances to customers	**1,492,366**	**564,710**	**562,879**	**1,275,863**	**3,895,818**

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)

W. Financial risk management (continued)

1. Credit risk (continued)

1.5. Debt securities, loans and advances to banks and derviatives

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

				31 December 2016		
Rating	**Trading securities**	**Investment securities, available for sale**	**Debt securities lending**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	5,023	-	**5,023**
A- to A+	-	-	-	74,472	-	**74,472**
BBB- to BBB+	1,535	412,477	176,984	213	-	**591,209**
BB- to BB+	-	-	-	758	-	**758**
Lower than BB-	-	-	-	1,085,603	569	**1,086,172**
Unrated	-	9,656	-	240	17	**9,913**
Total	**1,535**	**422,133**	**176,984**	**1,166,309**	**586**	**1,767,547**

Investment securities available for sale include impaired corporate bonds (under category "Unrated") with carrying amount of BGN 9,262 thousand (2015: BGN 10,098 thousand). The rest of the portfolio is neither past due, nor impaired. The impairment provisions as of end of 2016 amounted to BGN 11,914 thousand (2015: BGN 10,063 thousand).

				31 December 2015		
Rating	**Trading securities**	**Investment securities, available for sale**	**Debt securities lending**	**Loans and advances to banks**	**Derivatives**	**Total**
AA- to AA+	-	-	-	36,443	-	**36,443**
A- to A+	-	-	-	64,993	-	**64,993**
BBB- to BBB+	10,275	354,892	-	350	-	**365,517**
BB- to BB+	-	-	169,400	11	-	**169,411**
Lower than BB-	-	-	-	7,617	1,849	**9,466**
Unrated	-	11,971	-	202	513	**12,686**
Total	**10,275**	**366,863**	**169,400**	**109,616**	**2,362**	**658,516**

Impairment provision of corporate bonds:	**2016**	**2015**
Balance at 1 January	**10,063**	**10,063**
Charge to the income statement for the year	1,851	-
Balance at 31 December	**11,914**	**10,063**

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

Notes to the financial statements (continued)

W. 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	2016	2015
Commercial property	2,610	1 668
Residential property	5,238	3,430
Land	867	768
Total	**8,715**	**5,866**

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 31/12/2016 (BGN th)	Valuation technique	Input	Range (BGN) (weighted average) 2016	Range (BGN) (weighted average) 2015	Connection between the unobservable input and FV
Land	867	Market comparison approach	price per m2	0.75 - 328.58 (21.07)	2.12 - 356.95 (15.99)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2		74	A significant increase in price per m2 would result in a higher fair value
Residential	5,238	Market comparison approach	price per m2	50.85 - 2523.02 (697.48)	84.00 - 1526.00 (721)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	138.63	167	A significant increase in price per m2 would result in a higher fair value
Mixed	2,610	Market comparison approach	price per m2	50.26 - 1466.87 (215.83)	48.97 - 1466.87 (777.11)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	6.04	-	A significant increase in price per m2 would result in a higher fair value

Reconciliation of Level 3 movement:

	2016	2015
Balance at 1 January	**5,866**	**4,700**
Additions	5,200	1,596
Sales	(5,360)	(96)
Impairment	(754)	(334)
Transfers	3,764	-
Balance at 31 December	**8,715**	**5,866**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1. Credit risk (continued)

1.6. Repossessed collateral (continued)

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

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 2016. 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	-	1,085,603	50	44,089	36,567	1,166,309
Trading assets – debt securities	1,535	-	-	-	-	1,535
Loans and advances to customers:						
- Mortgages	1,488,435	2,817	230	5,235	2,273	1,498,990
- Consumer lending incl. credit cards	611,732	748	118	2,093	382	615,073
-Small business lending	550,888	-	2	-	-	550,890
-Corporate lending	1,539,643	-	-	9,804	-	1,549,447
Investment debt securities – AFS	417,702	-	4,431	-	-	422,133
Derivative financial instruments	17	569	-	-	-	586
Investment debt securities – DSL	-	-	-	176,984	-	176,984
Other assets	12,515	-	-	-	-	12,515
31 December 2016	**4,622,467**	**1,089,737**	**4,831**	**238,205**	**39,222**	**5,994,462**

	Bulgaria	Greece	Romania	Rest of Europe	Other countries	Total
Loans and advances to banks	-	7,617	35	71,356	30,608	109,616
Trading assets – debt securities	10,275	-	-	-	-	10,275
Loans and advances to customers:						
- Mortgages	1,270,768	1,384	66	1 819	1,826	1,275,863
- Consumer lending incl. credit cards	562,505	380	81	1 338	406	564,710
-Small business lending	562,876	-	3	-	-	562,879
-Corporate lending	1,492,366	-	-	-	-	1,492,366
Investment debt securities – AFS	362,237	-	4,626	-	-	366,863
Derivative financial instruments	513	1,849	-	-	-	2,362
Investment debt securities – DSL	-	-	-	169,400	-	169,400
Other assets	10,710	-	-	-	-	10,710
31 December 2015	**4,272,250**	**11,230**	**4,811**	**243,913**	**32,840**	**4,565,044**

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

1.Credit risk (continued)

1.7. Concentration of risks of financial assets with credit risk (continued)

(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	Manufactu-ring	Con-struction	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	1,166,309	-	1,166,309
Trading assets-debt securities	-	-	-	-	1,535	-	-	1,535
Loans and advances to customers:								
- Mortgages	-	1,498,990	-	-	-	-	-	1,498,990
-Consumer lending incl. credit cards	-	615,073	-	-	-	-	-	615,073
-Small business lending	338,558	7,387	88,358	50,115	-	295	66,177	550,890
-Corporate lending	635,490	-	447,751	107,250	1,431	54,238	303,287	1,549,447
Investment debt securities – AFS	486	-	6,695	1,096	412,476	1,380	-	422,133
Derivative financial instruments	13	-	2	-	-	571	-	586
Investment debt securities – DSL	-	-	-	-	-	176,984	-	176,984
Other assets	-	-	-	-	-	12,515	-	12,515
31 December 2016	**974,547**	**2,121,450**	**542,806**	**158,461**	**415,442**	**1,412,292**	**369,464**	**5,994,462**

	Commerce and services	Private individuals	Manufac-turing	Con-struction	Public sector	Financial institutions	Other	Total
Loans and advances to banks	-	-	-	-	-	109,616	-	109,616
Trading assets-debt securities	-	-	-	-	10,275	-	-	10,275
Loans and advances to customers:								
- Mortgages	-	1,275,863	-	-	-	-	-	1,275,863
-Consumer lending incl. credit cards	-	564,710	-	-	-	-	-	564,710
-Small business lending	343,490	5,211	94,760	54,024		784	64,610	562,879
-Corporate lending	595,025	-	446,158	111,875	1,647	72,260	265,401	1,492,366
Investment debt securities - AFS	1,605	-	7,416	1,076	354,892	1,874	-	366,863
Derivative financial instruments	1	-	193	-	-	2,168	-	2,362
Investment debt securities – DSL	-	-	-	-	-	169,400	-	169,400
Other assets	-	-	-	-	-	10,710	-	10,710
31 December 2015	**940,121**	**1,845,784**	**548,527**	**166,975**	**366,814**	**366,812**	**330,011**	**4,565,044**

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

Notes to the financial statements (continued)

W. 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.

	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 2016					
Derivative assets	569	-	569	(569)	**-**
Liabilities as of 31 December 2016					
Derivative liabilities	(6,489)	-	(6,489)	5,380	**(1,109)**

	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 2015					
Derivative assets	1,930	-	1,930	(1,930)	**-**
Liabilities as of 31 December 2015					
Derivative liabilities	(2,063)	-	(2,063)	1,930	**(133)**

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

Notes to the financial statements (continued)

W. 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 may include 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 may include 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 & Counterparty Risk Policy, developed in line with the Group Market & Counterparty Risk Policy. The objectives of the Bank's Market & Counterparty 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 & Counterparty Risk Policy is further supported by 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 & Counterparty Risk Policy is approved by the Risk Committee of Eurobank Bulgaria AD and maintained by Market Risk Department. Market Risk Department reviews the policy at least annually and submits changes to the Risk Committee 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)

W. 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)

W. 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 2016
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(7,971)**	(100)	(13,427)	5,556
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(91)**	(90)	(1)	-
Foreign exchange				
-10% depreciation of local currency	**(612)**	**(612)**	-	-

				31 December 2015
	Total Effect on Economic Value	**Direct P&L Effect**	**Direct Equity Effect**	**Banking Book Effect**
Interest Rate				
+100 bps parallel shift for all currencies	**(6,871)**	(579)	(13,120)	6,828
Equities / Equity Indices / Mutual Funds				
-10% equity price drop across the board	**(111)**	(110)	(1)	-
Foreign exchange				
-10% depreciation of local currency	**(102)**	(102)	-	-

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

Notes to the financial statements (continued)

W. 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 rates, interest rates and equity prices, 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)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

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

				At 31 December 2016
	Level 2	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets				
Loans and advances to banks	1,166,309	-	**1,166,309**	**1,166,309**
Loans and advances to customers				
-Corporate	-	1,476,715	**1,476,715**	**1,549,447**
-SBB	-	545,430	**545,430**	**550,890**
-Consumer	-	706,678	**706,678**	**615,073**
-Mortgage	-	1,674,333	**1,674,333**	**1,498,990**
Debt Securities Lending	182,735	-	**182,735**	**176,984**
Financial liabilities				
Debt issued and other borrowed funds	78,959	-	**78,959**	**78,959**

				At 31 December 2015
	Level 2	**Level 3**	**Total Fair Value**	**Total Carrying Amount**
Financial assets				
Loans and advances to banks	109,616	-	**109,616**	**109,616**
Loans and advances to customers				
-Corporate	-	1,500,275	**1,500,275**	**1,492,366**
-SBB	-	584,240	**584,240**	**562,879**
-Consumer	-	640,423	**640,423**	**564,710**
-Mortgage	-	1,483,448	**1,483,448**	**1,275,863**
Debt Securities Lending	162,459	-	**162,459**	**169,400**
Financial liabilities				
Debt issued and other borrowed funds	160,944	-	**160,944**	**160,944**

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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

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

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.

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 2016 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:

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

2.4.2. Financial instruments measured at fair value (continued)

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	1,535	-	-	**1,535**
-Equity securities	903	-	-	**903**
Derivative financial instruments	-	586	-	**586**
Available-for-sale investment securities				
-Investment securities - debt	412,476	-	9,656	**422,132**
-Investment securities - equity	11	3,005	5,918	**8,934**
Total financial assets	**414,925**	**3,591**	**15,574**	**434,090**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	6,693	-	**6,693**
Total financial liabilities	**-**	**6,693**	**-**	**6,693**

	31 December 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value:				
Financial assets held for trading				
-Debt securities	10,275	-	-	**10,275**
-Equity securities	1,101	-	-	**1,101**
Derivative financial instruments	-	2,444	-	**2,444**
Available-for-sale investment securities				
-Investment securities - debt	354,891	-	11,972	**366,863**
-Investment securities - equity	8	-	14,169	**14,177**
Total financial assets	**366,275**	**2,444**	**26,141**	**394,860**
Financial liabilities measured at fair value:				
Derivative financial instruments	-	3,289	-	**3,289**
Total financial liabilities	**-**	**3,289**	**-**	**3,289**

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.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

2. Market risk (continued)

2.4. Fair values of financial assets and liabilities (continued)

2.4.2. Financial instruments measured at fair value (continued)

Bank's valuation processes (continued)

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.

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).

As of 2013 end, 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	**2016**	**2015**
Balance at 1 January	**26,141**	**5,810**
Transfers into Level 3	-	11,972
Total (loss)/gain for the period included in other comprehensive income	(10,567)	8,360
Balance at 31 December	**15,574**	**26,142**

Visa Europe AFS equity revaluation amounting to BGN 8,356 thousand booked in 2015 Other Comprehensive income of the Bank in anticipation of the finalization of Visa Inc. transaction in 2016, was accordingly reversed in 2016.

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

3.Liquidity risk

Basel Committee defines liquidity as "the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses".

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.

The Bank has a limited appetite for liquidity risk and accepts the potentially increased costs of maintaining sufficient liquidity buffers to ensure a sound liquidity position.

3.1. Liquidity risk management process

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

Within its liquidity risk management framework, the Bank observes various liquidity ratios and indicators. The main aspects to be considered in liquidity control are liquidity ratios, the availability of sufficient and quality liquid assets and buffers, maturity mismatch profile, diversity and stability of the deposit base, loans to deposits ratio, stress test results and other.

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 is responsible to regularly produce and distribute the internally adopted liquidity gap reports with embedded liquidity ratios. It is the unit which exercises an independent liquidity risk control function, escalating any excesses to the respective management bodies.

In addition to the internally defined liquidity ratios, the Bank also monitors and complies with the mandatory and the recommended levels of the liquidity ratios defined in Ordinance №11 of the Bulgarian National Bank (BNB) on liquidity management, as well as any other regulatory requirements. In parallel, since Regulation (EU) No575/2013 entered into force, the Bank also prepares the templates for the calculation of Liquidity Coverage Ratio (LCR) on a monthly basis and Net Stable Funding Ratio (NSFR) on a quarterly basis.

The Bank also makes assessment of its liquidity position under stress scenarios, developed to analyse the adequacy of the Bank's liquidity to withstand crisis situations (e.g. significant deposit outflows, tightening of credit lines, etc.).

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.

ALCO is composed of the senior management of the Bank, meets at least once a month and duly reports any significant issues to the MB of the Bank.

Within its authority is to take all the necessary decisions regarding the interest rate policy, the liquidity and assets and liabilities management and to set the target parameters of potential external funding.

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;

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

Notes to the financial statements (continued)

W. Financial risk management (continued)

3.Liquidity risk (continued)

3.1. Liquidity risk management process (continued)

- 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 manages 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 are 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.

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 2016 and 2015. Liabilities without contractual maturities (sight and saving deposits) are presented in "less than 1 month" time bucket.

As at 31 December 2016	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	***5,650,303***	***4,190,745***	***400,677***	***939,868***	***106,268***	***12,745***
Due to other banks	21,171	21,171	-	-	-	-
Due to customers	5,528,595	4,109,016	396,640	935,990	86,949	-
Debt issued and other borrowed funds	81,061	41,082	4,037	3,878	19,319	12,745
Other liabilities	19,476	19,476	-	-	-	-
Derivative financial instruments	***1,301,288***	***1,081,672***	***193,547***	***1,984***	***15,704***	***8,381***
Outflows from net settled	28,189	-	2,120	1,984	15,704	8,381
Outflows from gross settled	1,273,099	1,081,672	191,427	-	-	-
Total liabilities (contractual maturity)	**6,951,591**	**5,272,417**	**594,224**	**941,852**	**121,972**	**21,126**
Total assets (contractual maturity)	**8,925,709**	**3,867,776**	**333,794**	**492,241**	**1,927,282**	**2,304,616**

As at 31 December 2015	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	***4,845,910***	***3,339,433***	***448,207***	***801,284***	***245,921***	***11,065***
Due to other banks	19,854	19,854	-	-	-	-
Due to customers	4,614,224	3,265,198	441,860	797,372	109,794	-
Debt issued and other borrowed funds	176,253	18,802	6,347	3,912	136,127	11,065
Other liabilities	35,579	35,579	-	-	-	-
Derivative financial instruments	***1,402,522***	***1,387,742***	***2,166***	***374***	***8,332***	***3,908***
Outflows from net settled	14,601	21	1,966	374	8,332	3,908
Outflows from gross settled	1,387,921	1,387,721	200	-	-	-
Total liabilities (contractual maturity)	**6,248,432**	**4,727,175**	**450,373**	**801,658**	**254,253**	**14,973**
Total assets (contractual maturity)	**7,971,811**	**3,474,362**	**119,320**	**463,386**	**1,750,820**	**2,163,923**

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

Notes to the financial statements (continued)
W. Financial risk management (continued)
3. Liquidity risk (continued)

3.3. Off-balance sheet items

(a) *Loan commitments*

The amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers and other facilities are presented on-demand - to the earliest period in which the Bank can be required to pay and are summarised in the table below:

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

Financial guarantees are presented on-demand in the table below, based on the earliest date on which the guranatee can be called.

At 31 December 2016	2016	2015
Guarantees:		
- guarantees and standby letters of credit	155,310	85,418
Commitments:		
- Undrawn loan commitments	828,368	591,496

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)

W. 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. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

	2016	2015
Tier 1 capital		
Share capital	560,323	452,753
Reserves	438,347	354,239
Revaluation reserve of financial assets available for sale	-	(505)
Less:		
Intangible assets	(39,542)	(34,548)
Total qualifying Tier 1 capital	**959,128**	**771,939**
Tier 2 capital		
Long term debt	-	88,028
Revaluation reserve of property owned by the Bank	685	1,079
Total qualifying Tier 2 capital	685	**89,107**
Risk-weighted assets		
On-balance sheet	3,786,188	3,306,799
Off-balance sheet	324,741	174,349
Total risk-weighted assets	**4,110,929**	**3,481,148**
Basel ratio	**23.35%**	**24.73%**

X. Critical accounting estimates and judgments in applying accounting policy

In the process of applying the Bank's accounting policies, the Bank's Management makes various judgments, estimates and assumptions that may affect the reported amounts of assets and liabilities recognized in the financial statements within the next financial year. Estimates and judgments are continually evaluated and 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 portfolios 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.

Notes to the financial statements (continued)

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

Impairment of available- for-sale equity investments

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

Fair value of derivatives

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use 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.

Fair value of loans and advances of customers acquired

Following IFRS 3 Business Combination requirement, loans and advances to customers acquired through the acquisition of Alpha Bank's Bulgarian Branch (Note 32) should be measured at fair value as of acquisition date and subsequently measured at amortized cost.
Loans and advances to customers acquired were fair valued using a valuation model. 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 discount rates. Loans are grouped into homogenous assets with similar characteristics, such as currency, product, borrower type and delinquency status, in order to improve the accuracy of the estimated valuation outputs. Assumptions for expected prepayments and timing of collateral realization were incorporated in estimating future cash flows, while the discount rates incorporate observable inputs such as forward interest curves and unobservable inputs for relevant risk premiums, as appropriate.

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.

Notes to the financial statements (continued)

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

Retirement benefit obligations(continued)

For information in respect of the sensitivity analysis of the Bank's retirement benefit obligations 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 W.2.3) illustrates the potential impact on the income statement and equity from reasonable possible shifts in the market variables. The parameters for the calculations of sensitivity to changes in the three major market risk factors – foreign exchange rates, interest rates and equity prices, have been determined based on the current market environment and the dynamics during 2016.

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 interest rate sensitive 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 BSE equity prices across the board.

Fair value of land and buildings

The Bank determines the fair value of land and building from market-based evidence by appraisal that is undertaken by professionally qualified valuers.

The 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 cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. 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.

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

Notes to the financial statements (continued)

1 Net interest income

Interest and similar income	**2016**	**2015**
Loans and advances to customers	268,338	283,044
Investment securities	11,383	7,263
Hedging instruments	6,712	6,535
Loans and advances to banks	15,484	3,689
Derivative instruments	2,754	2,979
Trading securities	570	206
Total	**305,241**	**303,716**

Interest income includes BGN 21,206 thousand (2015: BGN 19,599 thousand) interest income, recognised on impaired loans to customers, out of which BGN 5,072 thousand (2015: BGN 4,449 thousand) remain due by the customer as of year-end.

Interest and similar charges	**2016**	**2015**
Deposits from customers	24,269	60,026
Long term debt and other borrowed funds	2,386	3,547
Hedging instruments	4,038	2,848
Derivative instruments	252	500
Deposits from banks	781	436
Total	**31,726**	**67,357**

2 Net fee and commission income

Fees and commission income	**2016**	**2015**
Money transfers	25,551	22,751
Account maintenance	19,559	14,367
Loans' fees and commissions	11,086	11,587
Foreign exchange operations	9,054	7,732
Receipts from sales of services	8,337	7,827
Cash operations	6,156	5,546
Documentary business	1,889	1,670
Management, brokerage and securities trading	700	580
Other fees	935	665
Operations with derivatives	977	63
Total	**84,244**	**72,788**

Fee and commission expense	**2016**	**2015**
Loans related fees	2,190	1,435
Transactions processing	9,925	10,045
Cash transactions and correspondent accounts	526	603
Other fees	364	330
Management, brokerage and securities trading	167	172
Operations related to derivatives	977	63
Total	**14,149**	**12,648**

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

Notes to the financial statements (continued)

3 Other operating income	2016	2015
Net gain on sale of loans	10,511	-
Rental income	228	150
Net gain from non-current fixed assets	393	328
Bargain purchase gain (note 32)	548	-
Investment property impairment	(194)	(33)
Total	**11,486**	**445**

Other operating income includes BGN 10,511 thousand (2015: BGN 0 thousand) net gain on sale of a consumer loan portfolio, for more details refer to Note 13.
Bargain purchase gain amount relates to the Alpha Branch acqusition, for more details refer to Note 32.
Rental income is based on short term contracts.

4 Net trading (expense)/ income	2016	2015
Net results from derivative instruments	(127)	31
Net trading income	**(127)**	**31**

5 Other operating expenses	2016	2015
Staff costs (Note 6)	68,036	51,323
Operating lease rentals	21,689	16,850
Repairs and maintenance	9,138	6,496
External services	9,083	6,280
Depreciation of property, plant and equipment (Note 16)	7,731	6,163
Advertising and marketing	7,626	5,770
Amortisation of intangible assets (Note 17)	6,256	5,685
Software costs	5,570	3,763
Security	4,118	3,329
Other operating costs	2,005	2,222
Communication	3,458	1,936
Materials and utilities	1,679	1,557
Insurance	667	583
Travel and accommodation	523	427
VAT refund	(252)	-
Total	**147,327**	**112,384**

6 Staff costs	2016	2015
Wages and salaries	57,209	42,141
Social security costs	4,328	3,294
Pension costs – defined contribution plans	4,344	3,902
Pension costs – defined benefit plans (Note 25)	524	546
Other	1,631	1,440
Total staff cost	**68,036**	**51,323**

(All amounts are shown in BGN thousands unless otherwise stated)
Notes to the financial statements (continued)

7 Impairment charge for credit losses

	2016	2015
Loans and advances to customers (Note 13)	(69,662)	(66,611)
Credit commitments	(93)	10
Total	**(69,755)**	**(66,601)**

8 Income tax expense

	2016	2015
Deferred income tax (benefit)/expense (Note 23)	(522)	423
Current income tax	14,981	9,012
Total	**14,459**	**9,435**

Tax is payable at an actual rate of 10% (2015: 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:

	2016	2015
Profit before income tax	**134,029**	**93,535**
Tax calculated at a tax rate of 10% (2015: 10%)	13,403	9,354
Tax effect of:		
- non tax deductible expenses	1,576	628
- non taxable income	(868)	(82)
- provision on tax inspection act	-	(465)
- loss recognized in OCI	348	-
Income tax expense	**14,459**	**9,435**

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 management of the Bank is not aware of any circumstances, which can potentially raise material tax obligations.

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.

9 Income tax effects relating to comprehensive income

	Year ended 31 December 2016			2015		
	Before tax amount	**Tax (expense)/ benefit**	**Net of tax amount**	**Before tax amount**	**Tax (expense)/ benefit**	**Net of tax amount**
Available for sale securities	6,842	(684)	6,158	14,548	(1,455)	13,093
Change in FV of property, plant and equipment	(87)	9	(78)	(473)	47	(426)
Remeasurements of post -employment benefit obligations	646	(65)	581	(90)	9	(81)
Total	**7,401**	**(740)**	**6,661**	**13,985**	**(1,399)**	**12,586**

(All amounts are shown in BGN thousands unless otherwise stated)
Notes to the financial statements (continued)

10 Cash and balances with the Central Bank	2016	2015
Cash in hand	89,157	95,093
Balances with Central bank	631,266	992,805
Total	**720,423**	**1,087,898**
Mandatory reserve with Central Bank in accordance with BNB Regulation 21	497,926	405,819

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 2015 and 2016 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	2016	2015
Deposits in other banks	1,166,309	109,616
Total	**1,166,309**	**109,616**

Included in the amount of loans and advances to banks is accrued interest of BGN 113 thousand (2015: BGN 0 thousand).
Approximately 100 % (2015: 100 %) of the amounts due from other banks represent funds placed in banks domiciled in OECD (Organisation for Economic Co-operation and Development) countries.

12 Financial assets held for trading	2016	2015
Bulgarian government bonds	1,535	10,275
Shares	903	1,101
Total	**2,438**	**11,376**
Equity securities:		
- Listed	903	1,101
Bonds:		
- Listed	207	-
- Unlisted	1,328	10,275

Included in the amount of the bonds is accrued interest in the amount of BGN 21 thousand (2015: BGN 101 thousand).

Gains less losses from trading securities	2016	2015
Debt securities	835	185
Equity securities	28	(297)
Total	**863**	**(112)**

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

Notes to the financial statements (continued)

13 Loans and advances to customers	**2016**	**2015**
Consumer lending (including credit cards)	648,433	706,454
Small Business lending	713,096	716,291
Mortgages	1,570,587	1,331,432
Corporate lending	1,694,787	1,652,819
Gross loans and advances	**4,626,903**	**4,406,996**
Less allowance for impairment losses on loans and advances	(412,503)	(511,178)
Net outstanding balance of loans and advances to customers	**4,214,400**	**3,895,818**

Included in the amount of loans and advances to customers is accrued interest of BGN 36,349 thousand (2015: BGN 32,671 thousand). In 2016 Eurobank Bulgaria AD purchased loans from BRS in the amount of BGN 20,828 thousand (2015: BGN 23,297 thousand). The company is related party of the Eurobank Group. 2016 closing balance of loans and advances to customers is affected by the sale of a consumer portfolio with gross balance BGN 140,135 thousand and impairment balance BGN 121,907 thousand.

	2016	**2015**
The ten largest exposures to customers	416,968	476,772
Percentage of gross loans	9.01%	10.82%

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 2015	**131,067**	**55,364**	**136,513**	**151,404**	**474,348**
Charge for the year	9,950	11,439	16,972	28,250	**66,611**
Recoveries and legal and collection fees	3,218	258	(265)	(125)	**3,086**
Amounts written off	(2,147)	(14,361)	(418)	(18,586)	**(35,512)**
Foreign exchange differences	(344)	2,869	610	(490)	**2,645**
At 31 December 2015	**141,744**	**55,569**	**153,412**	**160,453**	**511,178**

	Consumer lending	**Mortgages**	**Small Business Lending**	**Corporate Lending**	**Total**
At 1 January 2016	**141,744**	**55,569**	**153,412**	**160,453**	**511,178**
Charge for the year	12,788	22,608	15,146	19,120	**69,662**
Recoveries and legal and collection fees	(404)	(228)	394	(1,110)	**(1,348)**
Amounts written off	(121,748)	(10,143)	(6,856)	(35,936)	**(174,683)**
Foreign exchange differences	981	3,791	109	2,813	**7,694**
At 31 December 2016	**33,361**	**71,597**	**162,205**	**145,340**	**412,503**

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

Notes to the financial statements (continued)

14 Investment securities

14 a Investment securities, available for sale	2016	2015
Bulgarian government bonds	408,045	350,265
Corporate unsecured bonds	9,657	11,972
Foreign government bonds	4,431	4,626
Shares and participations	8,934	14,177
Total	**431,067**	**381,040**
Equity securities		
Listed	11	8
Unlisted	8,923	14,169
Debt securities		
Listed	412,136	340,100
Unlisted	9,997	26,763
Total	**431,067**	**381,040**

Included in the amount of investment securities is accrued interest in the amount of BGN 5,840 thousand (2015: BGN 5,700 thousand).

Foreign government bonds consist of exposures to Romania BGN 4,431 thousand (maturing 2018) (2015: Romania BGN 4,626 thousand).

On 21 June 2016, Visa Inc. announced the completion of the acquisition of Visa Europe Ltd. In accordance with the terms of the final transaction agreement, upon the closing of the transaction Visa Inc. paid an up-front cash consideration of EUR 12.2 billion and issued preferred shares equivalent to a value of EUR 5.3 billion to the shareholders of Visa Europe. In addition, a deferred cash payment of EUR 1.12 billion, including interest, will be paid on the third anniversary of the closing date.

The Bank recognized its share of the sale proceeds, including BGN 8,784 thousand in cash, BGN 3,004 thousand in preferred shares and BGN 700 thousand as the present value of the deferred consideration in ‘Gains less losses from investment securities’. Visa Europe AFS equity revaluation amounting to BGN 8,356 thousand booked in 2015 Other Comprehensive income of the Bank in anticipation of the finalization of Visa Inc. transaction in 2016, was accordingly reversed in 2016.

Movement in available for sale securities is reconciled as follows:	
Book value as at 31 December 2014	**130,514**
Additions	490,410
Disposals	(252,656)
Change in accrued interest	561
Amortization of discounts or premium	(1,202)
Net fair value gain	13,414
Book value as at 31 December 2015	**381,040**
Additions	70,261
Disposals	(36,841)
Change in accrued interest	(297)
Amortization of discounts or premium	(204)
Net fair value gain	18,427
Impairment of corporate securities	(1,319)
Book value as at 31 December 2016	**431,067**

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

Notes to the financial statements (continued)

14 Investment securities (continued)

14 a Investment securities, available for sale (continued)

Gains less (losses) and impairment of securities available for sale	**2016**	**2015**
Transfer the revaluation reserve from equity to income statement	780	1,308
Losses recognized on sale of AFS securities directly through income statement	(321)	(661)
Impairment of investment security recognised directly in income statement	(1,978)	-
Gain recognised on exchange of shares (VISA)	12,461	-
Total	**10,942**	**647**

14 b Investment securities, Debt Securities lending	**2016**	**2015**
Bonds issued by banks	176,984	169,400
Total	**176,984**	**169,400**
Debt securities		
Listed	176,984	169,400

Book value as at 31 December 2014	**-**
Additions	173,229
Change in accrued interest	(36)
Amortization of discounts or premium	(801)
Foreign Exchange differences from translation into entity currency	(2,992)
Book value as at 31 December 2015	**169,400**
Change in accrued interest	358
Amortization of discounts or premium	990
Foreign Exchange differences from translation into entity currency	6,236
Book value as at 31 December 2016	**176,984**

Included in the amount of debt securities lending is accrued interest in the amount of BGN 715 thousand (2015: BGN 332 thousand).

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.

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

Notes to the financial statements (continued)

15 Investment property (continued)

Investment property	**2016**	**2015**
Beginning of the year	843	876
Negative revaluation	(165)	(33)
End of the year	**678**	**843**

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

Class property	**Fair value 31/12/2016 (BGN th)**	**Valuation technique**	**Significant Unobservable Input**	**Range (weighted average) 2016 in BGN**	**Range (weighted average) 2015 in BGN**	**Connection between the unobservable input and FV**
Land	678	Market comparison approach	price per m2		22.37 - 28.16 (24.87)	A significant increase in price per m2 would result in a higher fair value
		Cost approach	price per m2	20		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.

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.

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

	Land and buildings	**Leasehold improvements**	**Plant and equipment**	**Total tangible fixed assets**
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**
Year ended 31 December 2015				
Opening net book amount	19,686	6,272	17,182	**43,140**
Additions	99	791	2,711	**3,601**
Impairment and write offs	(420)	-	(54)	**(474)**
Transfers	(2,700)	2,975	(275)	-
Depreciation charge (Note 5)	(193)	(1,666)	(4,304)	**(6,163)**
Closing net book amount	**16,472**	**8,372**	**15,260**	**40,104**
At 31 December 2015				
Gross amount	22,833	24,348	88,943	**136,124**
Accumulated depreciation	(6,361)	(15,976)	(73,683)	**(96,020)**
Net book amount	**16,472**	**8,372**	**15,260**	**40,104**

	Land and buildings	**Leasehold improvements**	**Plant and equipment**	**Total tangible fixed assets**
Year ended 31 December 2016				
Opening net book amount	16,472	8,372	15,260	**40,104**
Additions	1,191	2,299	9,817	**13,307**
Impairment and write offs	(115)	(103)	(698)	**(916)**
Transfers	(3,764)	-	-	(3,764)
Depreciation charge (Note 5)	(496)	(1,986)	(5,249)	**(7,731)**
Closing net book amount	**13,288**	**8,582**	**19,130**	**41,000**
At 31 December 2016				
Gross amount	18,806	25,902	90,434	**135,142**
Accumulated depreciation	(5,518)	(17,320)	(71,304)	**(94,142)**
Net book amount	**13,288**	**8,582**	**19,130**	**41,000**

2016 Additions include BGN 5,893 thousand Property, plant and equipment acquired through the acquisition of Alpha Bank Branch in Bulgaria (refer to Note 32).

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

Notes to the financial statements (continued)

16 Property, plant and equipment (continued)

	2016	2015
Land and buildings at revalued amount	**13,288**	**16,472**
Revaluation reserve, net of tax	(1,712)	(1,798)
Difference between accumulated depreciation based on cost and based on revalued amount not yet transferred to retained earnings	839	937
Deferred tax on revaluation	(190)	(200)
Land and buildings at cost less accumulated depreciation	**12,225**	**15,411**

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

Class property	Fair value 31/12/2016 in BGN thousands	Valuation technique	Significant Unobservable Input	Range (weighted average) 2016 in BGN	Connection between the unobservable input and FV
Land	290	Market comparison approach	price per m2	10.21 - 46.94 (13.77)	A significant increase in price per m2 would result in a higher fair value
Land	10	Cost approach	price per m2	19.56	A significant increase in price per m2 would result in a higher fair value
Land	**300**				
Residential	280	Income approach	rental price per m2	1.10 - 359.87 (125.29)	A significant increase in price per m2 would result in a higher fair value
Residential	25	Market comparison approach	price per m2	3.92	A significant increase in price per m2 would result in a higher fair value
Residential	**305**				
Retail	4	Cost approach	price per m2	24.38	A significant increase in price per m2 would result in a higher fair value
Retail	785	Income approach	rental price per m2	2.41 - 19.28 (5.44)	A significant increase in price per m2 would result in a higher fair value
Retail	7	Market comparison approach	price per m2	116.95	A significant increase in price per m2 would result in a higher fair value
Retail	**796**				
Office	563	Cost approach	price per m2	35.31 - 279.38 (86.77)	A significant increase in price per m2 would result in a higher fair value
Office	3,907	Income approach	rental price per m2	1.00 - 19.56 (3.67)	A significant increase in price per m2 would result in a higher fair value
Office	7,344	Market comparison approach	price per m2	64.17 - 1662.46 (600.57)	A significant increase in price per m2 would result in a higher fair value
Office	**11,814**				
Mixed	12	Cost approach	price per m2	10.53 - 49.05 (14.92)	A significant increase in price per m2 would result in a higher fair value
Mixed	61	Market comparison approach	price per m2	136.18	A significant increase in price per m2 would result in a higher fair value
Mixed	**73**				

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 2014	
Gross book amount	75,138
Accumulated amortisation	(40,129)
Net book amount	**35,009**
Year ended 31 December 2015	
Opening net book amount	35,009
Additions	5,224
Amortisation charge (Note 5)	(5,685)
Closing net book amount	**34,548**
At 31 December 2015	
Gross book amount	78,592
Accumulated amortisation	(44,044)
Net book amount	**34,548**
Year ended 31 December 2016	
Opening net book amount	34,548
Additions	11,265
Disposals and write offs	(15)
Amortisation charge (Note 5)	(6,256)
Closing net book amount	**39,542**
At 31 December 2016	
Gross book amount	88,875
Accumulated amortisation	(49,333)
Net book amount	**39,542**

Intangible assets	**2016**	**2015**
Software	15,021	14,818
Other	10,399	9,677
Licenses	10,259	6,813
Internally developed	3,863	3,240
Total	**39,542**	**34,548**

Internal development costs recognized in 2016 as intangible asset are BGN 1,017 thousand (2015: BGN 747 thousand). 2016 Additions include BGN 552 thousand Intangible assets acquired through the acquisition of Alpha Bank Branch in Bulgaria (refer to Note 32).

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

Notes to the financial statements (continued)

18 Other assets	2016	2015
Amounts in transit	7,465	6,521
Repossessed collaterals	8,715	5,866
Other debtors	4,662	4,715
Prepaid expenses	3,580	2,972
Other assets	1 602	598
Materials	25	27
Less: impairment against other financial assets	(1,214)	(1,124)
Total	**24,835**	**19,575**

The financial assets contained in the Other assets note amounted to BGN 12,515 thousand (2015: BGN 10,710 thousand). Amounts in transit are closed within a day or two. Financial assets including other receivables totaling BGN 1,214 thousand (2015: BGN 1,124 thousand) are fully impaired. The remaining part of other financial assets is neither past due nor impaired. The non-financial assets amounted to BGN 12,320 thousand (2015: 8,865 thousand) are expected to be realized within 12 months.

Impairment against other financial assets	2016	2015
Opening balance at 1st of January	1,124	849
Charged to the income statement	649	423
Reversed to the income statement	(50)	(34)
Used during year	(509)	(114)
Closing balance	**1,214**	**1,124**

19 Deposits from Banks	2016	2015
Current accounts from other banks	4,171	2,854
Deposits from other banks	17,000	17,000
Total	**21,171**	**19,854**

Included within due to other banks is accrued interest payable of BGN 0 thousand (2015: BGN 0 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 2016	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	2,234	16	16
OTC currency swaps	1,261,743	567	1,411
Total OTC currency derivatives for trading	**1,263,977**	**583**	**1,427**
Interest rate derivatives			
OTC IR options bought and sold	74,115	3	3
Total OTC interest rate derivatives for trading	**74,115**	**3**	**3**
Derivatives held for hedging			
OTC interest rate swaps	166,246	-	5,263
Total OTC interest rate derivatives for hedging	**166,246**	**-**	**5,263**
Total recognised derivative assets / liabilities		**586**	**6,693**

Year ended 31 December 2015	**Contract / notional amount**	**Assets**	**Liabilities**
Derivatives held for trading			
Foreign exchange derivatives			
OTC currency forwards	2,111	3	1
OTC currency swaps	1,234,244	1,124	549
Total OTC currency derivatives	**1,236,355**	**1,127**	**550**
Interest rate derivatives			
OTC interest rate swaps	31,281	227	227
OTC IR options bought and sold	155,597	1,008	1,008
Total OTC interest rate derivatives	**186,878**	**1,235**	**1,235**
Derivatives held for hedging			
OTC interest rate swaps	150,599	82	1,504
Total OTC interest rate derivatives for hedging	**150,599**	**82**	**1,504**
Total recognised derivative assets / liabilities		**2,444**	**3,289**

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 as at 31 December 2016 was BGN 5,263 thousand negative(2015: BGN 82 thousand positive and BGN 1,504 thousand negative).

The loss on the hedging instruments was BGN 3,545 thousand (2015: gain BGN 1,097 thousand). The gain on the hedged item attributable to the hedged risk was BGN 3,420 thousand (2015: loss BGN 1,059 thousand). In 2016 the fair value hedges were highly effective (2015: highly effective), and the net effect recognised in income statements is a loss of BGN 125 thousand (2015: gain BGN 38 thousand).

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

Notes to the financial statements (continued)

21	**Due to customers**	**2016**	**2015**
	Large corporate customers	859,305	526,103
	Medium corporate customers	234,304	169,593
	Total due to corporate customers	**1,093,609**	**695,696**
	Retail customers	4,430,724	3,909,109
	Total due to customers	**5,524,333**	**4,604,805**

Included within due to customers is related accrued interest payable of BGN 3,075 thousand (2015: BGN 6,637 thousand).
The ten largest deposits represent 5.11% of the total deposit base (2015: 3.37 %).

22	**Debt issued and other borrowed funds**	**2016**	**2015**
	Subordinated debt	-	98,017
	EBRD Loan	41,091	18,819
	Long term debt from Bulgarian Development Bank	30,042	32,366
	European Investment Bank Loan	7,826	11,742
	Total	**78,959**	**160,944**

a) Subordinated debt instruments

The Subordinated debt instruments, which amount to BGN 98,017 thousand as at 31 December 2015, are fully prepaid on 7 September 2016.

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 was increased to EUR 30,000 thousand (BGN 58,675 thousand). As of 31 December 2016 the total outstanding liability amounted to BGN 41,091 thousand (2015: 18,819 thousand).

c) Loans received from the Bulgarian Development Bank

In July 2015, Eurobank Bulgaria signed a Loan Agreement with Bulgarian Development Bank (NAPRED) for on-lending to MSMEs combining funding and risk-sharing. The total size of the facility is BGN 30,000 thousand, disbursable in 3 tranches of BGN 10,000 thousand each in accordance with the contracted disbursement plan. As of 31 December 2016 the total liability amounted to BGN 30,042 thousand (2015: BGN 20,017 thousand).
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. A prepayment of the line on 30.03.2016 was approved in December 2015. The outstanding liability as of 31 December 2015 amounted to BGN 3,924 thousand was fully prepaid in 2016.
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. A prepayment of the line on 14.03.2016 was approved in December 2015. The outstanding liability as of 31 December 2015 amounted to BGN 8,425 thousand was fully prepaid in 2016.

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

Notes to the financial statements (continued)

22 Debt issued and other borrowed funds (continued)

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 2016 the total liability amounted to BGN 7,826 thousand (2015:11,742 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 2016 and 2015 the utilization of that line is BGN 0.

f) Senior Facility Agreement between Eurobank Bulgaria and Alpha Limited, Cyprus

In connection with the acquisition of Alpha Bank's Bulgarian Branch (see note 32) in February 2016, Eurobank Bulgaria and Alpha Limited signed Senior Facility Agreement in the amount of EUR 106,930 thousand (BGN 209,137 thousand) with maturity date February, 2018. The amount was fully prepaid in 2016.

				31 December 2016
	Within 1 year	**1-5 years**	**Over 5 years**	**Total**
EBRD Credit lines				
Floating rate	41,072	-	-	**41,072**
Accrued interest	19	-	-	**19**
Loan from Bulgarian Development Bank				
Floating rate	3,529	14,118	12,353	**30,000**
Accrued interest	42	-	-	**42**
Loan from the European Investment Bank				
Floating rate	3,912	3,912	-	**7,824**
Accrued interest	2	-	-	**2**
Total Debt issued and other borrowed funds	**48,576**	**18,030**	**12,353**	**78,959**

(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 2015
	Within 1 year	**1-5 years**	**Total**
Subordinated debt			
Floating rate	-	97,792	**97,792**
Accrued interest	225	-	**225**
EBRD Credit lines			
Floating rate	18,802	-	**18,802**
Accrued interest	17	-	**17**
Loan from Bulgarian Development Bank BGN			
Floating rate	-	20,000	**20,000**
Accrued interest	17	-	**17**
Loan from Bulgarian Development Bank BGN			
Fixed rate	1,111	2,778	**3,889**
Accrued interest	35	-	**35**
Loan from Bulgarian Development Bank EUR			
Floating rate	1,668	6,673	**8,341**
Accrued interest	84	-	**84**
Loan from the European Investment Bank			
Floating rate	3,912	7,823	**11,735**
Accrued interest	7	-	**7**
Total Debt issued and other borrowed funds	**25,878**	**135,066**	**160,944**

23 Deferred income taxes

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 10% (2015: 10%). The movement on the deferred income tax account is as follows:

	2016	**2015**
Deferred tax liability at the beginning of year	2,710	2,344
Deferred tax liability recognized in OCI	55	(57)
Income statement charge (Note 8)	(522)	423
Deferred tax liability at end of year	**2,243**	**2,710**

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

Notes to the financial statements (continued)
23 Deferred income taxes (continued)

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

	2016	2015
Deferred income tax liabilities		
Accelerated tax depreciation	3,725	3,330
Property revaluation	190	200
Gain on share exchange	416	416
Actuarial gain	52	-
	4,383	**3,946**
Deferred income tax assets		
Unused holidays	148	126
Provision for court claims	611	490
Provision for retirement obligations	440	394
Deferred tax assets on actuarial loss	-	13
Deferred tax assets on provisions for restructuring	537	30
Deferred tax assets on provision for tax audit	-	23
Other temporary differences	404	160
	2,140	**1,236**

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

	2016	2015
Depreciation	395	(424)
Unused holidays	(22)	3
Provision for court claims and off balances	(121)	(180)
Other temporary differences	(221)	(12)
Provisions for restructuring	(507)	1 076
Provision for retirement obligations	(46)	(40)
Net deferred tax (benefit)/ charge	**(522)**	**423**

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	**2016**	**2015**
Opening balance at 1st of January	4,916	3,338
Charged to the income statement	1,506	1,711
Used during year	(305)	(133)
Closing balance	**6,117**	**4,916**

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

Notes to the financial statements (continued)

24 Provisions for other liabilities and charges (continued)

(b) Provisions for restructuring

The table below presents movement in provision for restructuring for 2016:

Provisions for restructuring	**2016**	**2015**
Opening balance at 1st of January	304	2,122
Charged to the income statement	4,062	-
Used during year	-	(1,818)
Closing balance	**4,366**	**304**

(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**	
	2016	**2015**	**2016**	**2015**
Cash with Central bank (held as MRR)	497,926	405,819	5,573,535	4,632,612
Trading and investment securities (pledged under government accounts)	32,918	39,311	15,445	21,869
Loans pledged under long term debt agreement	25,757	9,451	30,042	12,349
Total	**556,601**	**454,581**	**5,619,022**	**4,666,830**

The total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) as of 31 December 2016 was BGN 556,601 thousand (2015: BGN 454,581 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 93 thousand (2015: BGN 90 thousand) as a cover for letter of credit and letter of guarantee transactions. Pledged funds under Credit Support agreements are BGN 4,811 thousand (2015: BGN 0 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)

25 Retirement benefits obligations

IAS 19 establishes the principle that the cost of providing employee benefits should be recognised in the period in which the benefit is earned by the employee, rather than when it is paid or payable. Defined benefit plans involves incorporating actuarial assumptions into measurement of the obligation and the expenses. Therefore, actuarial gain and losses arise. Obligations are measured on a discounted basis, as they might be settled many years after the employees render the related services.

According to the revised IAS 19, the liability for employee benefits recognized on the balance sheet at the end of the fiscal year is equal to the balance sheet obligation at the beginning of the year after the effect of:

- service cost
- interest cost
- employers contributions
- paid benefits
- gains or losses from curtailment and settlements
- gains or losses in actuarial liability or in the assets of the plan

	2016	2015
Retirement benefit obligation at 01 January	4,064	6,114
Service cost	460	430
Interest cost	96	118
Benefits paid	(170)	(2 686)
Settlement/Curtailment	83	(2)
Remeasurement	(647)	90
Retirement benefit obligation at 31 December	**3,886**	**4,064**
Expenses recognised in profit or loss		
Service cost	460	430
Interest cost	96	118
Settlement/Curtailment	83	(2)
Other expense	(115)	-
Total expense included in staff costs	**524**	**546**
Total remeasurement recognised in OCI	**(647)**	**90**

Significant actuarial assumptions	**2016**	**2015**
Discount rate	2.30%	2.36%
Future salary increase:		
2016:	0.80%	0.80%
2017-2018:	0.80%	1.60%
2019-2020:	1.60%	2.60%
After 2020:	2.60%	2.60%

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

Notes to the financial statements (continued)

25 Retirement benefits obligations (continued)

IAS 19 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 2016 is 17.32 years (2015: 19.2 years).

Sensitivity analysis

A quantitative sensitivity analysis based on reasonable changes to significant actuarial assumptions as at 31 December 2016 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 7.56% or BGN 294 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 6.3% or BGN 244 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

Other liabilities	2016	2015
Other creditors	9,058	26,734
Accrued expenses	8,938	7,474
Unused paid leave accrual	1,479	1,257
Withholding tax obligations	421	862
Other	441	184
Total	**20,337**	**36,511**

The financial liabilities contained in the Other liabilities note amounted to BGN 10,811 thousand (2015: BGN 28,023 thousand).

27 Share capital

As at 31 December, 2016 the total authorized number of ordinary shares of Eurobank Bulgaria AD was 560,323,302 (2015: 452,752,652) with a nominal value of BGN 1 per share. All issued shares are fully paid. 107,570,650 increase in total ordinary shares is related to debt to equity conversion transaction disclosed in Note 32. No dividends are distributed in 2016 and 2015.

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:

	2016	2015
Cash in hand (Note 10)	89,157	95,093
Balances with Central bank excluding the minimum level of mandatory reserves	382,303	789,895
Loans and advances to banks (Note 11)	1,166,309	109,616
Total amount of cash and cash equivalent	**1,637,769**	**994,604**

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

Notes to the financial statements (continued)

28 Cash and cash equivalents (continued)

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.

29 Related party transactions

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

In November 2015, following the completion of Eurobank Ergasias share capital increase, fully covered by investors, institutional and others the percentage of the Bank's ordinary shares with voting rights held by the HFSF decreased from 35.41% to 2.38%.

Despite the aforementioned significant decrease of its percentage, the HFSF is still considered to have significant influence over Eurobank Ergasias. In particular, in the context of the Law 3864/2010, as in force, HFSF exercises its voting rights in the Bank's General Assembly only for decisions concerning the amendment of the Bank's Articles of Association, including the increase or decrease of the Bank's capital or the granting of a corresponding authorization to the Bank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Bank, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 2190/1920. In addition, Eurobank Ergasias has entered into a new Relationship Framework Agreement (RFA) with the HFSF on 4 December 2015 replacing the previous one, signed on 26 August 2014, which regulates, among others, (a) the Bank's corporate governance, (b) the restructuring plan and its monitoring, (c) the monitoring of the implementation of the Bank's Non-Performing Loans (NPL) management framework and of the Bank's performance on NPL resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Bank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Bank's Group Risk and Capital Strategy and for the Bank's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in the Bank's Board.

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 2016			31 December 2015		
	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)	-	20,828	-	-	140,351	-
Loans and advances to banks (weighted interest rate 2016: 1.67%, 2015: 2.61%)	1,085,603	212	-	7,617	58	-
Loans and advances to customers (weighted interest rate 2016: 2.13%, 2015: 2.34%)	-	105,732	51	-	134,518	56
Financial assets held for trading						
Derivative financial instruments assets	569	3	-	1,930	275	-
Other assets	-	954	-	-	865	-
Due to other banks	1,174	854	-	1,164	876	-
Due to customers (weighted interest rate 2016 0.03% , 2015: 0.18%)	-	7,563	316	-	7,262	8
Debt issued and other borrowed funds (weighted interest rate 2016: 0.00%, 2015: 2.73%)	-	-	-	98,017	-	-
Derivative financial instruments liabilities	6,489	203	-	2,290	-	-
Other liabilities	-	108	-	-	463	-
Interest income	20,451	2,463	3	11,526	2,795	4
Interest expense	(2,039)	(17)	-	(5,497)	(28)	-
Fee and commission income	963	600	-	5	513	-
Fee and commission (expense)	(142)	(3)	-	(577)	(5)	-
Net trading income	(4,333)	140	-	973	-	-
Salaries and other short-term benefits	-	-	1,687	-	-	1,257
Rental expense	-	(6,318)	-	-	(5,458)	-
Valuation expenses	-	(392)	-	-	(191)	-
Other Expenses	(1,130)	(591)	-	(719)	(419)	-
Letters of guarantee issued	-	7	-	-	37	-
Letters of guarantee received	121,307	-	-	124,782	-	-

***represent other entities under common control**

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

Notes to the financial statements (continued)

29 Related party transactions (continued)

All loans lent to related parties in 2016 (and 2015) are categorized as neither past due, nor impaired according to Group provision policy, thus no provisions have been booked in 2016 (and 2015) related to them.

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 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.

(b) Loan commitments, guarantee and other financial facilities

As at 31 December 2016, 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:

	2016	**2015**
Guarantees	134,100	55,766
Letters of credit	21,210	29,652
Loan commitments and other credit related liabilities	828,368	591,496
Total	**983,678**	**676,914**

(c) Capital Expenditures

As at 31 December 2016, the Bank had the following capital expenditure commitments:

	2016	**2015**
Capital Expenditures	**2,900**	**2,409**

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	**2016**	**2015**
No later than one year	9,437	8,487
Later than one year and no later than five years	1,052	2,176
Later than five years	-	-
Total	**10,489**	**10,663**

(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 2016 is BGN 19 thousand (2015: BGN 20 thousand).

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

Notes to the financial statements (continued)

32 Acquisition of Alpha Bank's Bulgarian Branch by Eurobank Bulgaria AD

On 1 March 2016, the acquisition of the entirety of the operations of Alpha Bank's Bulgarian Branch ("Branch"') by Eurobank Bulgaria, was completed after obtaining the relevant regulatory approvals. The consideration for the acquisition of the Branch was BGN 1.96, the equivalent of EUR 1.
The acquisition of the Branch constitutes a step forward for Postbank to further strengthen its position in the Bulgarian banking sector and expand its customer base in both the retail and corporate business segments. Postbank is expected to benefit from significant synergies, while maintaining its strong capital ratios and substantial liquidity buffers.
The acquisition of the Branch was accounted for as a business combination using the purchase method of accounting.
The fair values of the assets and liabilities as of the date of acquisition are presented in the table below:

	Fair Value
Cash and balances with the Central Bank	287,827
Loans and advances to banks	57,967
Loans and advances to customers	519,056
Other assets*	10,930
Total assets	**875,780**
Due to customers	552,904
Borrowed funds (Alpha Cyprus)	209,137
Borrowed funds (Eurobank Ergasias)	107,571
Other liabilities	5,620
Total liabilities	**875,232**
Total shareholders' equity	**548**
Total shareholders' equity and liabilities	**875,780**

(*) Other assets include property, plant and equipment, intangible assets and other assets.

At the date of acquisition the fair value of the acquired loans is BGN 519,056 thousand, with gross contractual amount of BGN 770,141 thousand and impairment of BGN 251,135 thousand.

The resulting total gain on the acquisition of the Branch measured as the excess of the fair value of net asset value acquired at acquisition date over consideration paid less acquisition costs incurred amounts to BGN 548 thousand and is recognized as Other operating income in the Statement of Comprehensive Income and is attributed to the particular circumstances of the acquisition in line with the restructuring plans for Alpha Bank, Greece and Eurobank, Greece.

Connected with the acquisition Eurobank Bulgaria took over a liability of BGN 209,137 thousand to Alpha LtD, Cyprus and BGN 107,571 thousand was initially due to Alpha LtD, Cyprus, immediately after the transaction the liability was taken over by Eurobank Ergasias, who converted the BGN 107,571 thousand into share capital in Eurobank Bulgaria. The conversion of loan into share capital does not form part of the business combination and was accounted for separately as a conversion of debt into equity.

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

Notes to the financial statements (continued)

32 Acquisition of Alpha Bank's Bulgarian Branch by Eurobank Bulgaria AD (continued)

Details on proceeds from acquisition of subsidiary, net of cash acquired can be found below:

Cash consideration paid	**0**
Less: Balances acquired	
Cash	345,794
Borrowed funds (Alpha Cyprus)	(209,137)
	136,657
Net inflow from cash – investing activities	**136,657**

The results of the Branch were incorporated in the Bank's financial statements prospectively, as of 1 March 2016. If the acquisition had occurred on 1 January 2016, the Branch would have contributed revenue of BGN 5,296 thousand and net loss of BGN 495 thousand to the Bank for the period from 1 January 2016 up to the date of acquisition. Due to the acquisition transaction specifics it is impracticable to monitor the post-acquisition date acquiree's result separately on a solo basis.

33 Events after the balance sheet date

There are no significant post balance sheet events with effect on the financial statements as of 31 December 2016.